



Halo Food Co.

29 July 2022

ASX Release Quarterly Report

For the quarter ending 30 June 2022

HALO COMMENCES Q1 FY23 WITH STRONG SALES AND CONTINUED MOMENTUM

29 July 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 first quarter of the 2023 financial year ending 31 March 2023 (“Q1 FY23”).

Halo’s CEO, Danny Rotman, commented on the release of the quarterly results “Halo has had a strong and exciting start to the FY23 year. On 1 April 2022, Halo successfully completed the acquisition of The Healthy Mummy, a leading digital health and wellness business, being highly complementary to the existing Halo business and offering significant upside to the group. The Healthy Mummy offers high margin recurring digital subscription revenue complemented by a powdered product business to be manufactured in-house at Halo’s facilities with significant operational synergies.”

“The Branded division has greatly benefited from the restructuring which occurred through FY22 and there are significant green shoots now present in the business with a growing national distribution footprint and profitable sales. The Contract Manufacturing business continues to perform well and had a number of key and material contract wins through the quarter including additional Coles contracts in Australia and the renewal of the Foodstuffs agreement in New Zealand.”

“Global supply disruptions and delays continue to cause challenges for not only Halo but our clients and the entire sector. A number of our clients had delayed payments outside of terms which flowed through to cash used from operations throughout the quarter which have largely since been paid in July. Had these debtor receipts been paid and received when they fell due, Halo would have been net cash generative through the period, highlighting the benefits of scale and operational leverage the group is now experiencing.”

Q1 FY23 Key Financial Highlights

- Q1 FY23 sales for the consolidated group totalled \$20.9m, comprising \$16.7m from the Halo group excluding THM and \$4.2m from THM on a standalone basis;
- Q1 FY23 sales were 42% up on the prior quarter including the contribution from THM and a strong 14% increase on a like-for-like basis excluding THM;
- Sales of \$4.2m in THM are in line with the prior corresponding period of Q1 FY22, correlating to the seasonal low Winter quarter;
- Cash receipts from customers for the quarter totalled \$19.7m, being \$15.4m from the



Halo group excluding THM and \$4.2m from THM. Customer receipts from Halo (excluding THM) were lower than anticipated due to the overdue accounts of a number of debtors in both Australia and New Zealand. These overdue accounts due for collection in Q1 FY23 total \$4.3m. Subsequent to quarter end and through the course of July, \$3.2m of the outstanding amount has been collected, however, is not recorded in the accompanying Appendix 4C for the quarter ended 30 June 2022;

- The late payment by debtors in the business for monies due to be received through Q1 FY23 is attributed to global supply chain challenges (as cited by Halo's clients) and the flow-on effects throughout the industry. As stated above 75% of the outstanding balances have been collected in July with the remainder expected to be collected in due course;
- The timing lag on collection of overdue debtors beyond the quarter end has artificially increased the net cash outflow from operations for the group to a total of \$4.7m and is further compounded by one-off professional service fees of c.\$1.0m (included in the \$4.7m net outflow) relating to the acquisition of THM. Had the debtors been collected on terms through Q1 FY23 (overdue debtors accounted for 91% of the cash outflow) and the one-off costs normalised, Halo would have been cash flow positive for the quarter from operations;
- Product manufacturing and operating costs within Halo (excluding THM) eased 8%, a significant reduction in the current high inflationary environment, from \$17.3m in Q4 FY22 to \$15.9m in Q1 FY23. Halo has a disciplined working capital management strategy and is working diligently to address procurement and logistic challenges while simultaneously reducing inventory balances, thereby releasing working capital into the business;
- Staff costs significantly reduced on a like-for-like basis through Q1 FY23 compared with Q4 FY22 as shift patterns normalised following the loss of manufacturing hours in Q4 FY22 due to COVID absenteeism; and
- Advertising and marketing costs for the quarter were \$963k, principally driven by THM and in line with THM historical marketing spend.

As at 30 June 2022, Halo had a combined cash balance of \$4.5m. The funds raised through the capital raising in Q4 FY22 plus the \$13.0m of new debt funding raised from Arrowpoint Capital (backed by the Victor Smorgan Group) were utilised towards the acquisition of The Healthy Mummy and working capital initiatives.

Acquisition of The Healthy Mummy

In Q4 FY22, Halo announced the strategic acquisition of 100% of the issued share capital in leading digital health and wellness business, The Healthy Mummy ("THM"). THM 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. The acquisition multiple is at a material discount to recent and directly comparable transactions within the digital health and wellness space.



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The consolidation of THM into Halo will see Halo benefit from higher margin digital distribution channels creating a vertically integrated brand owner and manufacturer, with a strong recurring digital subscription base. This benefit has already commenced with the launch of Healthy Mummy Wellness adding additional high margin digital products and channels to the group. The integration of THM is progressing and well advanced, the production of the powdered products of THM is in the process of being transferred in-house to Halo's Australian manufacturing facilities, realising significant manufacturing synergies of approximately \$800,000 ahead of additional retail growth opportunities.

The acquisition of THM legally completed on 1 April 2022 and Q1 FY23 is the first quarter of results that are consolidated into the Halo group and the accompanying Appendix 4C. The June quarter is typically a seasonal low for THM being Autumn/Winter. Through the second half of July (subsequent to quarter end) and with a renewed marketing strategy, the business is increasing its daily sales average and recorded the highest sales day since the time of the acquisition. These green shoots through the latter half of winter are a strong lead indicator for demand heading into the busy Spring and Summer periods.

Furthermore, new strategic growth initiatives are being progressed and launched. A strong national retail presence, in addition to Priceline pharmacies, will offer significant upside to the THM business. While new ranging has been secured inline with previous ASX announcements and product despatched and paid for, there are a number of large-scale retail opportunities currently under discussion which if secured, will likely materially increase sales and increase brand awareness and penetration. The level of retail interest in THM products has been significant across large national and local independent retailers. Halo will provide an update on these promising initiatives in due course.

As referenced, a new and exciting vertical of THM, Healthy Mummy Wellness, was successfully launched in late Q1 FY23, and has gained an impressive social following offering an exciting new revenue opportunity for the business. Healthy Mummy Wellness is a new vertical of the business with a new website, a new app and new socials. It is aimed at the emotional and mental wellbeing of mums and their families and offers a holistic approach to health and wellness. This key and strategic growth vertical is aimed at both the existing and valuable customers of THM as well as appealing to a broader market who have a holistic focus on their health and wellness. In a short amount of time and subsequent to quarter end, Healthy Mummy Wellness has realised the following key stats:

- c. 2,500 digital subscriptions;
- 95%+ subscriptions to date are on the annual higher value digital rate;
- Social media following of more than 15,300;
- c. 7,500 unique website visits in the last 28 days.

Halo will continue to pursue its strategic growth agenda within the THM business and provide updates to the market in due course.



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Contract Manufacturing

Contract manufacturing recorded a strong start to the FY23 year. Sales totalled \$15.9m across Australia and New Zealand for Q1 FY23.

Through the quarter the contract manufacturing vertical realised two material wins, being:

- the renewal of the Foodstuffs Agreement in New Zealand valued at NZD9.4m over two years; and
- a Coles private label contract valued at \$9.5m over two years. This Coles contract is in addition to the contract awarded in November 2021 valued at \$3.3m per annum, valuing the annual Coles production with Halo at \$8.0m.

The above contracts highlight the growing recognition of Halo with leading retailers both domestically and internationally as their trusted manufacturing partner for their private label brands.

Global supply chain challenges continue to present day-to-day operational challenges for the business and are leading to lengthy delays in the procurement of key ingredients, packaging and the dispatch of orders. These challenges in turn are impacting working capital management and the timely payment from certain debtors. Halo is managing this closely and eliminating bottlenecks and delays as best as possible, which has led to increased inventory through the business and a temporary lock up of working capital. Subsequent to quarter, stock builds for new contracts have been dispatched and released and Halo is due to collect these debtor receipts through the current quarter.

Brands Division

The Brands division of Halo underwent a significant restructuring program in FY22 and the benefits of this work are beginning to flow through and have been recorded in Q1 FY23. Brands recorded Sales of \$850k in the first quarter and the division's first positive EBITDA result, compared against a substantial loss in FY22.

Highlights for Brands through Q1 FY22 include:

- Tonik brand refresh now complete and being rolled out across Tonik Protein Shakes,
- Tonik High Protein Bars launched in early 2022;
- Tonik High Protein Bars ranged in 465 7-Eleven petrol & convenience stores nationally throughout Australia from late April 2022;
- Tonik High Protein Bars have been launched into 600 Coles stores nationally, initial sales have been strong and hurdle rates are being comfortably exceeded to date;
- On The Run petrol & convenience retailer has confirmed ranging of Tonik High Protein Bars into 150 sites from mid-September 2022;
- A further 10 distributors have agreed to range various combinations of Tonik products



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including Protein Shakes and High Protein Bars. These ranging confirmations add further brand awareness and national retail penetration through gyms, petrol and convenience and speciality health channels; and

- Tonik range rationalisation completed to focus on the core range of the best-selling Tonik products.

Tonik sales have continued to increase as the focussed and targeted marketing is supporting in-store ranging, brand awareness and increased distribution. The Tonik sales team also attended a number of trade shows through the quarter, including 2022 Naturally Good Expo in Sydney and Fitness and Wellness Australia, with an outstanding level of enquiry around the brand, the products and future distribution opportunities, now currently being worked on.

Other

Payments to executive and non-executive directors totalled approximately \$254,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 30 June 2022, 46,511,628 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 E ¹ | 23,255,814 | 0 | 0 | 23,255,814 |
| Class F ² | 23,255,814 | 0 | 0 | 23,255,814 |
| Total | 46,511,628 | 0 | 0 | 46,511,628 |

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

* * * * *

¹ 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

² 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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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, including The Healthy Mummy and Tonik, 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.

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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")

30 June 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 | 19,660 | 19,660 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product manufacturing and operating costs | (17,906) | (17,906) |
| (c) advertising and marketing | (963) | (963) |
| (d) leased assets | (127) | (127) |
| (e) staff costs | (2,758) | (2,758) |
| (f) administration and corporate costs* | (2,300) | (2,300) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 19 | 19 |
| 1.5 Interest and other costs of finance paid | (348) | (348) |
| 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 | (4,723) | (4,723) |

*Administration and corporate costs contains a net working capital adjustment for the acquisition of *The Healthy Mummy* for \$616k.

| | | |
|--|----------|----------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) entities | - | - |
| (b) businesses** | (10,897) | (10,897) |
| (c) property, plant and equipment | (27) | (27) |
| (d) investments | - | - |
| (e) intellectual property | - | - |

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| (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 | (10,924) | (10,924) |

*** Payments to acquire businesses is shown net of existing cash in the acquired entity.*

| | | |
|---|---------------|---------------|
| 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 | (349) | (349) |
| 3.5 Proceeds from borrowings | 15,837 | 15,837 |
| 3.6 Repayment of borrowings | (4,237) | (4,237) |
| 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 | 11,251 | 11,251 |

| | | |
|---|----------|----------|
| 4. Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 Cash and cash equivalents at beginning of period | 8,927 | 8,927 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | (4,723) | (4,723) |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above) | (10,924) | (10,924) |

| 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) | 11,251 | 11,251 |
| 4.5 | Effect of movement in exchange rates on cash held | (62) | (62) |
| 4.6 | Cash and cash equivalents at end of period | 4,471 | 4,471 |

| 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 | 4,471 | 8,927 |
| 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) | 4,471 | 8,927 |

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**

254

-

Note to Item 6.1: The amount of \$254k was payment of Director remuneration for the quarter ended 30 June 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 | 17,294 | 16,120 |
| 7.2 Credit standby arrangements | - | - |
| 7.3 Other (please specify) | - | - |
| 7.4 Total financing facilities | 17,294 | 16,120 |

7.5 **Unused financing facilities available at quarter end** 1,174

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
- The trade debtor facility for \$6,000,000 with Moneytech in the Australian Contract Manufacturing and Brand business is no longer available as at 30 June 2022 and has been repaid in full at period end.
- The interest rate for the trade finance facility in New Zealand is 2.29% on funds drawn.
- Arrowpoint Finance Facility for a total of \$13,000,000 in the parent company at a drawn rate of 9.75% per annum and an expiry date of 31 May 2025.

| 8. Estimated cash available for future operating activities | \$A'000 |
|---|------------|
| 8.1 Net cash from / (used in) operating activities (Item 1.9) | (4,723) |
| 8.2 Cash and cash equivalents at quarter end (Item 4.6) | 4,471 |
| 8.3 Unused finance facilities available at quarter end (Item 7.5) | 1,174 |
| 8.4 Total available funding (Item 8.2 + Item 8.3) | 5,645 |
| 8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1) | 1.2 |

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: Yes, Halo Food Co expects to continue to operate with the required levels of net cash flows as explained in the accompanying operational report. The cash used in operating activities has increased due to a number of debtors being out of terms. These debtors have now largely been collected. One-off costs related to the acquisition of The Healthy Mummy further inflated the cash used from operating activities during the period.

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: No, Halo does not anticipate raising further capital at this time

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, Halo expects to continue its operations and to meet its strategic objectives. As explained in section 8.6 Q1 and the accompanying operational report, the cash outflow from operating activities in Q1 FY23 increased due to a number of debtors being beyond the standard trading terms. 75% of these outstanding balances have now been collected through July 2022.

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 July 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.