

HALO CONTINUING TO PURSUE STRATEGIC GROWTH ACROSS THE GROUP AND RECORDS STRONG CASH GENERATIVE THIRD QUARTER

QUARTERLY ACTIVITIES REPORT & APPENDIX 4C

25 January 2023

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 third quarter of the 2023 financial year ending 31 March 2023 (“Q3 FY23”).

Upon releasing the quarterly results, Halo’s CEO, Jourdan Thompson, commented “Halo has continued to grow sales across the group and simultaneously realised a cash generative quarter through Q3 FY23. The Halo team has worked closely with our existing client base, won new clients and new contracts and is continually expanding the distribution footprint of our own proprietary brands, both Tonik and The Healthy Mummy, with major retailers across Australia.”

“The contract manufacturing business across Australia and New Zealand realised record sales, while the Brands division simultaneously realised a record sales quarter. The Healthy Mummy has continued to focus on improved customer experience, new product development and retail expansion ahead of the national retail roll-out in Woolworths in January 2023.”

“Halo as a group is well placed to capitalise on further growth opportunities, contract leads and retail opportunities throughout calendar year 2023 after a very productive third quarter and looks forward to updating the market on future wins.”

Q3 FY23 Key Financial Highlights

- Halo generated \$1.4m net cash from operations during Q3 FY23 as sales and cash receipts from customers continued to grow, this represents a \$2.2m positive cash swing through the quarter compared to the net cash outflow of \$733k in Q2 FY23;
- Q3 FY23 sales for the consolidated group increased by 8% to \$22.3m, an uplift of \$1.6m from \$20.7m in the prior quarter;
- Q3 FY23 sales are segmented as follows:
 - Australian contract manufacturing \$14.4m
 - New Zealand contract manufacturing \$3.8m



- The Healthy Mummy \$3.1m
- Brands \$1.0m
- Cash receipts from customers for the quarter totalled \$24.2m representing a 9% increase of \$1.9m from Q2 FY23;
- Customer receipts from Halo were lower than forecast due to overdue accounts of a number of clients principally in the Australian contract manufacturing business. Halo maintains a strong focus on debtor collections, however, a number of clients fell outside of terms, albeit have always paid in full in the past. The overdue debtors total \$1.8m for Q3 FY23, a decrease in overdue debtors from the prior quarter of \$3.0m, highlighting Halo's continued focus on collecting debtors as close to terms as possible;
- Advertising and marketing costs for the quarter eased a further \$55k from the prior quarter as The Healthy Mummy continued to rationalise marketing, working with leading marketing agencies to drive improved conversion while reducing customer acquisition cost;
- Staff costs increased through the quarter by \$300k driven by a number of one-off payments of redundancies and related employee entitlements as individuals were made redundant from roles no longer required. These reductions in headcount principally occurred in Halo Manufacturing and The Healthy Mummy with an increased focus on operating expenditure and efficiencies. This will lead to further savings in staff overheads in future quarters as monthly salary costs fall as a result of less headcount;
- On 30 December 2022, Halo made the full principal and interest payment to its senior lender Arrowpoint of \$972,103, reducing the debt from \$13m to \$12.35m, in line with the terms of the funding agreement.

As at 31 December 2022, Halo had a combined cash balance of \$4.3m per the attached Appendix 4C.

Q3 FY23 Operational Highlights

1. The Healthy Mummy (THM)

Q3 FY23 continued to be a productive quarter for THM as significant retail ranging was confirmed, further distribution sort across multiple large retailers, additional initiatives carried out to the app, website and user experience as well as additional revenue opportunities captured, including multiple new product launches.

Through the quarter, THM launched two new products on the platform including a THM Protein Custard and two flavour variants of Halo's Tonik Protein Bars. Initial sales for these new product SKUs through the THM platform have been strong. Tonik bars in particular have sold out both the first and second orders placed, totalling \$70k



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of Tonik sales via The Healthy Mummy direct to consumer e-commerce channels. Further orders have been placed across a greater number of Tonik flavour variants for direct sale on the THM platform as the following for Tonik grows amongst THM subscribers.

As a key growth pillar of THM, Halo has spearheaded a retail ranging campaign of THM products into major grocery and mass market retailers. THM participated in the Woolworths sports and diet range review and received confirmation through the quarter of ranging of three core THM powdered smoothie products from January 2023 across Woolworths national distribution footprint. The sales value of products to Halo is forecast to be approximately \$2,500,000 in the first year. Subsequent to quarter end, THM has received \$403,000 of opening orders, accounting for 16% of the forecast annual sales value, highlighting the upside for the potential of these products in major grocery channels.

Further retail ranging discussions are ongoing with a number of major retailers and Halo expects an outcome on these discussions during the current quarter. Further retail ranging will continue to be sort building on the initial ranging success to date.

A significant amount of public relations for THM has occurred through the quarter, continuing to build brand awareness and attract an increased, new and broader audience, particularly important ahead of the national retail launch in Woolworths. The following appearances on television or in print media occurred during Q3 FY23:

- Studio 10 (Channel 10 Morning Show) – 28 September 2022
- Daily Mail UK – 9 October 2022
- Sunrise (Channel 7) – 27 October 2022
- Front Cover and a two page feature article in the Daily Telegraph Sydney Weekend plus other national publications including (all on 19 November 2022):
 - Herald Sun
 - Courier Mail
 - Gold Coast Bulletin
 - Adelaide Now
 - Northern Territory News
 - Cairns Post
 - Toowoomba Chronicle
 - The Mercury (Tasmania)
 - Townsville Bulletin
- The Morning Show (Channel 7) – 25 November 2022
- Smooth FM Radio competition – 8 December 2022
- Bounty Parents: Great gift ideas – 19 December 2022
- Take a Break magazine (UK) – 20 December 2022



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- Weight loss transformation article on news.com.au – 30 December 2022

Public relations and media investment has continued into January 2023 to support our customers' new year resolutions, attract new customers and make the most of the summer period.

2. Brands Division

The momentum in Brands has continued in Q3 FY23. Brands has continued to grow, realised a monthly sales high, attended health, wellness and fitness trade shows, received industry related awards and secured further retail distribution through the quarter. Highlights include:

- In October 2022, Brands had a record sales month of \$497k, principally related to Tonik, with large orders received for select new accounts across the Petrol & Convenience channel;
- Tonik attended the Anytime Fitness trade show in November 2022 in Sydney, with a huge number of leads and interest shown in Tonik for further ranging. The Halo sales team are actively following up on these leads; and
- Tonik protein shakes were awarded the Category Choice Award in December by Convenience and Impulse Retailing. Convenience and Impulse Retailing is the leading trade magazine for Petrol & Convenience retailers and in addition to the award, Tonik has received several editorial write ups over the last two additions of the magazine.

New ranging has been activated and opening orders received across a number of new accounts for Tonik through the quarter. Additional ranging has been secured for a variety of Tonik products and will be activated through Q4 FY23, including:

- BP Australia – 1,000 stores
- Foodworks – 500 stores
- New Sunrise Group – 1,000 stores
- Metro Petroleum – 200 stores
- United Convenience Buyers Group – 1,300 stores
- Chevron – 180 stores
- Multiple IGA banner groups

Under the licensing agreement with Baileys for non-alcoholic long life drinks, Halo has continued to pursue sales and the Baileys non-alcoholic drinks are growing in New Zealand. Through the quarter sales for Baileys in New Zealand totalled \$195k, an increase of \$115k, being 144% greater than the prior quarter. Baileys is continuing to grow in popularity in New Zealand and is ranged in Countdown and Foodstuffs the major grocers in New Zealand and is growing month on month.



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3. Contract Manufacturing

Contract manufacturing continued building on the momentum of 1H FY23 and recorded sales of \$18.2m across Australia and New Zealand for Q3 FY23, growth of \$1.6m from Q2 FY23.

Australian Contract manufacturing has continued to grow the volumes of the existing client base and win new clients through the period. As announced subsequent to quarter end, Halo has been awarded a third Coles private label tender for an estimated sales value of \$2.9 million per annum with product due to be in store from May 2023.

As reported previously, the New Zealand Dairy business has seen an upturn in demand from international clients, particularly China based clients, with the softening of the spot milk powder prices. Orders from international clients have increased in size and frequency over the quarter, realising sales of \$3.8 million, the highest quarter of sales for FY23, as the lower milk powder price has increased demand for orders. There are a number of advanced discussions for large contracts in New Zealand and Halo will update the market on these in due course.

Other

Payments to executive and non-executive directors totalled approximately \$79,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 31 December 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

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

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Further Information

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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")

31 December 2022

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	24,153	66,160
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(17,221)	(52,810)
(c) advertising and marketing	(876)	(2,770)
(d) leased assets	(115)	(380)
(e) staff costs	(3,434)	(9,310)
(f) administration and corporate costs	(418)	(3,600)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	60
1.5 Interest and other costs of finance paid	(391)	(1,120)
1.6 Income taxes paid	(280)	(280)
1.7 Government grants and tax incentives	10	30
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	1,436	(4,020)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	(10,320)
(c) property, plant and equipment	(8)	(60)
(d) investments	-	-
(e) intellectual property	(117)	(140)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	10	10
2.6	Net cash from / (used in) investing activities	(115)	(10,510)

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	(1)	(350)
3.5	Proceeds from borrowings	2,216	20,140
3.6	Repayment of borrowings	(3,266)	(9,250)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	(577)
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(1,051)	9,963

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,017	8,927
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,436	(4,020)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(115)	(10,510)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,051)	9,963
4.5	Effect of movement in exchange rates on cash held	38	(35)
4.6	Cash and cash equivalents at end of period	4,325	4,325

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	4,325	4,017
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)	4,325	4,017

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**

79

-

Note to Item 6.1: The amount of \$79k was payment of Director remuneration for the quarter ended 31 December 2022.

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

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	16,551	15,257
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	16,551	15,257

7.5 **Unused financing facilities available at quarter end** 1,294

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 interest rate for the trade finance facility in New Zealand and Australia are 2.29% and 5.98% per annum, respectively, on funds drawn.
- Arrowpoint Finance Facility for a total of \$12,350,000 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)	1,436
8.2 Cash and cash equivalents at quarter end (Item 4.6)	4,325
8.3 Unused finance facilities available at quarter end (Item 7.5)	1,294
8.4 Total available funding (Item 8.2 + Item 8.3)	5,619
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: 25 January 2023

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.