

## HALO REALISES RECORD FY23 REVENUES AND LAUNCHED A STRATEGIC REVIEW TO UNLOCK UNREALISED VALUE

31 May 2023

Halo Food Co. Limited (ASX:HLF) (the “Company” or “Halo”) reports its full year financial results for the twelve months ending 31 March 2023 (“FY23”) and lodge the accompanying Appendix 4E and Preliminary Financial Report. The audited Annual Report will be released by no later than 30 June 2023.

### FY23 Highlights

- Substantial and continued sales growth across Halo - sales totalled \$82.1m (net of customer discounts and retail rebates) for FY23, an increase of over 37% compared with \$59.9m for FY22;
- Normalised group EBITDA for FY23 realised a 72% decrease in FY23 to \$0.7m compared with a normalised profit of \$2.3m in FY22;
- Australian Contract Manufacturing realised a record year, growing sales to more than \$51.6m for the division (excluding intercompany sales to Brands and The Healthy Mummy), an increase of 26% from FY22, driven by additional contract wins, repeat and increased volumes from existing clients;
- The Brands division sales increased to \$3.7m for the period, an increase of 35% over the prior period of FY22;
- The Healthy Mummy recorded revenues of \$13.9m for the period, a 31% decrease from the prior period of FY22, driven by macroeconomic headwinds and considerably tighter consumer discretionary spending in e-commerce;
- The Healthy Mummy’s underperformance in its e-commerce sales has been mitigated and somewhat offset by the strategic initiative into retailers which is ahead of forecast, generating \$690k of revenue in the first 3 months;
- New Zealand Dairy sales softened and as a result earnings decreased in the period due to weaker customer demand driven by high milk powder pricing;
- Net cash used in operations increased to \$3.9m compared with \$2.4m in FY22;
- Net loss for the year declined to a loss of \$50.1m from a loss of \$7.5m in FY22, driven by a non-cash impairment charge to goodwill;
- Significant non-cash impairment charges of \$36.1m taken in The Healthy Mummy and Halo Manufacturing business units driven by underperformance in The Healthy Mummy e-commerce business as a result of the macroeconomic environment and the



delta between Halo market capitalisation and the value of goodwill recorded on the balance sheet, plus a substantial increase in the Weighted Average Cost of Capital to 20.8% (compared to 11.0% in FY22) applied in the impairment revaluation model. These impairment charges are not reflective of the underlying value of the assets within the business verticals; and

- A strategic review led by Modus Partners is in progress to unlock value for all stakeholders.

## Financial Performance



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AUD million	FY2023	FY2022		% Change
<b>Normalised results<sup>1</sup></b>				
Revenue	82.1	59.9	▲	37%
<i>Australia Contract Manufacturing</i>	51.8	41.0	▲	26%
<i>New Zealand Dairy</i>	12.2	16.3	▼	-25%
<i>Brands</i>	4.3	2.7	▲	59%
<i>THM</i>	13.9	nm		
Gross Profit	19.7	13.4	▲	47%
Gross Margin	23.9%	22.3%	▲	1.6bps
EBITDA	0.7	2.3	▼	72%
<i>EBITDA Australian Co-Man</i>	2.6	4.1	▼	-35%
<i>EBITDA New Zealand Operations</i>	(0.2)	1.3	▼	-113%
<i>EBITDA Brands</i>	(0.2)	(1.0)	▼	-78%
<i>EBITDA THM</i>	0.7	nm		
<i>EBITDA HeadCo</i>	(2.3)	(2.1)	▲	-10%
<i>EBITDA Australian Co-Man excluding Bar Line</i>	4.1	nm		
<b>Reported results</b>				
Revenue	82.1	59.9	▲	37.0%
<i>Australia Contract Manufacturing</i>	51.8	41.0	▲	26.3%
<i>New Zealand Dairy</i>	12.2	16.3	▼	-25.0%
<i>Brands</i>	4.3	2.7	▲	59.5%
<i>THM</i>	13.9	nm		
Gross Profit	19.7	13.4	▲	47%
Gross Margin	23.9%	22.3%	▲	1.6bps
EBITDA	(3.2)	(3.6)	▼	11%
<i>Australia Contract Manufacturing</i>	1.8	3.4	▼	-46%
<i>New Zealand Dairy</i>	(0.2)	1.3	▼	-113%
<i>Brands</i>	(0.2)	(3.4)	▼	-94%
<i>THM</i>	(0.4)	nm		
<i>Headco</i>	(4.3)	(4.9)	▼	13%
<b>Balance Sheet &amp; Cash Flow</b>				
Net cash used in operating activities	(3.9)	(2.4)	▼	-58%
Borrowings	15.3	4.8	▲	221%
Closing Cash	2.8	7.2	▼	-61%

1. Normalised results exclude significant non-cash items totalling \$3.9m. Key items include the elimination of non-cash share based payments expense of \$0.5m, redundancy costs of \$2.1m, The Healthy Mummy acquisition costs of \$1.0m and \$0.3m of other one off costs.



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## Financial Commentary

Halo realised record revenue in FY23 growing to \$82.1m from \$59.9m in FY22. Normalised EBITDA declined from \$2.3m in FY22 to \$0.7m in FY23 driven by underperformance in NZ contract manufacturing, The Healthy Mummy and the Bar Line.

The Australian contract manufacturing segment increased revenues to \$51.8m from \$41.0m in FY22 as the powders and UHT businesses maintained their strong growth with a diversified customer base, growing volumes coupled with a number of new client wins during the year. This is despite the underperformance of the bar line which has not delivered the order volumes from clients that were forecast due to significant competition and reduced end customer demand. Notwithstanding the underperformance of the bar line, the Australian contract manufacturing business has a growing sales order book, continues to onboard new customers and increase operational efficiencies, particularly in the UHT plant which is near full utilisation.

The Brands division of Halo (excluding The Healthy Mummy) showed significant growth in FY23, Tonik sales grew more than 71% through FY23 to \$2.4m compared to sales of \$1.4m in FY22 with strong momentum moving into FY24 and significant additional ranging expected. The growth has been primarily driven by increased ranging of Tonik protein bars and protein drinks across petrol and convenience, independent supermarkets and independent speciality stores. Halo is expecting continued growth in FY24 as further distribution with major retail banner groups is secured and end consumer demand consistently grows.

The New Zealand Dairy vertical has had a more challenging year with softening demand primarily driven by high milk powder prices resulting in reduced sales in New Zealand and internationally. Sales are beginning to rebound as milk powder prices fall and FY24 will be supported by a recent contract agreed with Fonterra, estimated at revenues of NZD6.4m over the two year term.

The Healthy Mummy was acquired by Halo on 1 April 2022 and has been successfully integrated into the group. It has however experienced a more challenging trading environment than originally forecast, as consumers evaluate and reduce discretionary spending. This has resulted in a reduction in sales of both digital app subscriptions and products via the e commerce store. Halo has undertaken a cost rationalisation review within The Healthy Mummy and has further reduced operating costs totalling approximately \$0.3m a month.

Halo's strategic initiative to develop and expand The Healthy Mummy products into retailers continues to reap rewards with ranging in Woolworths including an on-the-go variety sachet pack and vanilla and chocolate tummy smoothies. Expected sales are \$2.5m in the first year and Halo is ahead of budget in retail channels. Additional ranging of The Healthy Mummy Metabolism tablets, The Healthy Mummy Bloat capsules and The Healthy Mummy Apple Cider Vinegar capsules will commence from June 2023. The team continues to develop opportunities with other clients in the retail channel, building on the success of the Woolworths contract.

While the positive impact of the increased retail ranging is generating sales and increasing the reach and awareness of The Healthy Mummy brand it is not yet offsetting the weaker sales in the remaining THM online business. Consequently, Halo has recorded a non-cash impairment



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to the goodwill of The Healthy Mummy of \$11.3m on the Company's balance sheet.

The greater majority of the statutory loss recorded is the non-cash impairment of \$36.1m of goodwill related to the acquisition of The Healthy Mummy and prior year acquisition of Halo Manufacturing. The impairment has been driven by a deteriorating macroeconomic environment, rising interest rates, rising inflation and increased cost of living pressures. In addition, there is a large delta between the market capitalisation of the Halo group and the goodwill recorded on the balance sheet. These macroeconomic factors have led to a significant increase in the company's weighted average cost of capital and the resulting discount rates used (FY23 WACC of 20.8% compared to FY22 WACC of 11.0%) to test the goodwill headroom pursuant to accounting standards as compared with prior years, resulting in the impairment.

This impairment is conservative, non-cash and is not reflective of the underlying value of the assets in Halo Manufacturing, the diversified nature of the client base, the current sales order book and the future revenue and profitability expectations of the division given the growth recorded in the business through FY23.

A further \$1.7m of the statutory loss relates to inventory write-off and \$3.9m represents non-recurrent and one-off costs.

The underperformance of the NZ and The Healthy Mummy businesses, combined with a slower than forecast return on investment from the brands and bar line operations, has led to working capital and cash constraints within the business. These are forecast to be addressed as part of the strategic review announced in May 2023.

The underperformance of the bar line operations has significantly impacted performance of Halo Manufacturing, reducing EBITDA by \$1.5m. Halo Manufacturing recorded a normalised core asset EBITDA of \$4.1m excluding the bar line.

The key EBITDA normalisations of \$3.9m to the group include the elimination of non-cash share based payments expense of \$0.5m, redundancy costs of \$2.1m, The Healthy Mummy acquisition costs of \$1.0m and \$0.3m of other one off costs.

### Strategic Review

The Board has formed an opinion that the value of the underlying businesses units within Halo, may be worth substantially more than the implied values based on the current listed market value of the Company. The Board has appointed corporate advisory firm Modus Partners, to conduct an external strategic review, drive value for all stakeholders and to ultimately advise on unlocking shareholder value in the group. The strategic review will consider all options available, for either individual business units or the Company as a whole, including divestment, other M&A and/or partnership opportunities, in order to maximise value for all stakeholders.



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The release of this announcement, Appendix 4E and Preliminary Financial Report has been authorised by the Board of Halo Food Co. Limited.

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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, 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](http://www.halofoodco.com) for further information.

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