

ASX Announcement: 27 April 2022

Business Activity Report and Appendix 4C Quarterly Cash Flow

TasFoods Limited (ASX:TFL) today released its Business Activity Report and Appendix 4C Quarterly Cash Flow for the quarter ended 31 March 2022 (Q1 2022).

Overview:

- Successful post balance date capital raising of \$5.5m Placement along with a \$0.5m SPP to fund initial stages of the Company's new strategy as announced to ASX on 28 February. Placement strongly supported by existing investors who are aligned with management's vision for the future of TasFoods.
- The leadership team has finalised its business review and forward-looking strategy that will leverage the strong capabilities inherent in our Tasmanian operations to further grow into the wider domestic market and export market over time.
- Sales for Q1 2022 were broadly in line with pcg with the Poultry division recording a 2% increase and Dairy a reduction of 1.8%.
- Whilst the Betta Milk brand operates in a highly competitive sector of the milk market we have started to see some benefits from our updated strategy. Volumes were reduced on pcg however revenue per unit increased as a result of price rises which were passed through. We continue to believe the Betta Milk brand has strong potential and plans are underway to reinvigorate this proudly Tasmanian brand.
- The Meander Valley Dairy brand has a particularly strong volume quarter driven by increases in butter (30%) and cream (25%). Gross margins were impacted by input prices and COVID-19 impacted labour costs, however management will be putting in place value chain findings to alleviate some of these supply challenges and improve profitability.
- The Poultry division reported Q1 revenue growth up 2% on the pcg which was an excellent result given the COVID-19 impact felt by this business unit in February. Gross margin was negatively impacted by input costs, particularly feed (19% increase on pcg) and labour (20% increase on pcg).
- COVID-19 disruptions continue to impact both our business divisions particularly during February where labour shortages severely impacted operations and our primary focus was on continuity of supply and animal welfare. Temporary labour and overtime increases were required to process birds, and the team at Nichols did an outstanding job in difficult circumstances.
- Input costs rose sharply through the quarter particularly the key inputs of poultry feed, milk, fuel and energy.
- Given these costs pressures from labour and other inputs, the Company experienced a gross profit margin reduction of 4.6 percentage points on the pcg. Board and management continue to actively review its supply chain to ensure best available pricing and continuity of supply through these challenging market conditions.
- Enhanced talent capabilities in sales, marketing, e-commerce, logistics and supply chain has been recruited with these key hires to commence in Q2 which will accelerate implementation of the renewed strategy

Financial update

- Group revenue for the quarter was consistent with pcg at \$16.6m.
- Direct cost of goods sold expenditure increased by \$0.9m, an increase of 7% versus pcg despite volumes sold declining on pcg. Feed costs associated with the Poultry division increased by 19% on pcg driven by the significant increase in the cost of wheat which is approximately 45% of input costs.
- Raw milk input costs have increased by 16% in Q1 driven by variances in milk composition and increased farm gate prices from March despite lower volume of milk purchased.
- Indirect expenditure has focused on managing business as usual activities prudently with a focus on re-setting the strategic and operational agenda and increasing essential core capabilities that will enhance future earnings performance. Distribution & Warehouse expenditure rose 13% versus pcg, a direct result of increasing fuel and transport costs. There was no expenditure on material changes or other material developments.

FY2022 Strategic reset and operational priorities

TasFoods new management team has set out its new strategic ambition and is now developing detailed operational plans to implement these initiatives. Our ambition has been shared with all shareholders, outlining the three phase's to consolidate the business, reposition the portfolio and provide a strong foundation to grow into the future.

The Company has announced our 10 initiatives that will deliver upon the strategy and drive operational improvement. An update on the progress of these initiatives is included below:

Initiative	Status update
Fix the foundations	Work in progress. Positive steps undertaken in the areas of financial accountability and transparency however further work required.
Reset strategic direction	Complete.
Implement capital management framework	Complete. Principles embedded into decision making.
Develop marketing & brand investment plans	Work in progress. New GM of Marketing starts April with a focus on developing action plans.
Implement ERP	Work in progress. On track for a Q4 2022 implementation.
Distribution & warehousing	Work in progress. New Logistics Manager starts April with a focus on developing one TasFoods solution.
Commercial accountability and capability	Work in progress. Development plans & KPI's being developed to improve this capability.
Implement value chain findings	Work in progress. Betta cream first category implemented with SKU reduction and price rise. Nichols poultry and Betta Milk to be implemented in March/April with Meander Valley Dairy to follow.
Build centre of excellence	Work in progress. Established new TasFoods supply chain area with particular focus on logistics, procurement and maintenance.
Target mainland and e-commerce growth	Work in progress. New GM of Sales and e-commerce Manager (both Melbourne based) start in April with a focus on developing channel plans.

The TasFoods team is working hard with passion and enthusiasm to achieve our strategic priorities and realise our potential as a premium branded produce business. TasFoods is continuing to experience change but as we build capability in process, systems and people we will expect to achieve improved financial performance for shareholders and provide us with the platform for future organic and inorganic growth.

Quarterly Cash Flow

TasFoods' Appendix 4C for the quarter ended 31 March 2022 (Q1 2022) has been lodged with the ASX today. Key points include:

- The quarter ended with a closing cash on hand balance of (\$0.6) million and unused finance facilities of \$1.9 million.
- During April, Tranche 1 capital raise funds of \$3.2m were received, with the balance in early June.
- Cash receipts from customers increased by \$0.9 million, 5% on the pc.
- Net operating cash outflows increased to negative \$1.4 million, reflecting the quarterly trading performance and a net increase in trade debtors balance from Q4 2021 of \$0.4 million.
- Investment in property plant and equipment of \$0.2 million comprised of various plant and equipment purchases across all business units.
- Cash flow from financing activities primarily related insurance premium funding repayments of \$0.5 million.
- Following settlement of the Placement & SPP, management is confident in the strength of the balance sheet and anticipated working capital requirements to implement the first stage initiatives of our new strategy.

Authorised for ASX release by the Board of Directors of TasFoods Ltd.

TasFoods contact

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Forward-looking statements

The Appendix 4C contains certain forward-looking statements that are based upon information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of TasFoods. These factors may cause actual results to differ materially from those expressed in the Appendix 4C contained in this announcement.

Appendix 4C

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

Name of entity

TasFoods Limited

ABN

53 084 800 902

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	17,721	17,721
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(12,755)	(12,755)
(c) advertising and marketing	(74)	(74)
(d) leased assets	(2)	(2)
(e) staff costs	(5,375)	(5,375)
(f) administration and corporate costs	(874)	(874)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(100)	(100)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	42	42
1.9 Net cash from / (used in) operating activities	(1,417)	(1,417)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(210)	(210)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(58)	(58)

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	8	8
	(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	(260)	(260)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	80	80
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	41	41
3.6	Repayment of borrowings	(517)	(517)
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	(396)	(396)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,451	1,451
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,417)	(1,417)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(260)	(260)

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)	(396)	(396)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	(622)	(622)

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	513	1,456
5.2	Call deposits	-	-
5.3	Bank overdrafts	(1,135)	-
5.4	Other	-	(5)
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	(622)	1,451

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
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	-
<i>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.</i>		

7.	Financing facilities <i>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.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities (includes lease liabilities under AASB 16)	8,532	8,532
7.2	Credit standby arrangements	-	-
7.3	Other (bank overdraft)	2,500	1,135
7.4	Total financing facilities	11,032	9,667
7.5	Unused financing facilities available at quarter end		1,365
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.		
	<p>Item 7.1 –</p> <p>TasFoods Ltd Group's total loan facilities (including financial liabilities under AASB 16 Leases) at 31 March 2022 amounted to \$8.532 million. Borrowings are secured over assets financed, and by mortgage over property and water rights owned by Nichols Poultry Pty Ltd and Van Diemen's Land Dairy Pty Ltd. Interest rates on these liabilities range between 0% and 8.06%, with the average interest rate being 4.56%.</p> <p>Item 7.3 and 7.5 –</p> <p>Nichols Poultry Pty Ltd and Van Diemen's Land Dairy Pty Ltd (subsidiaries of TasFoods Ltd) have bank overdraft facilities with the Australia and New Zealand Banking Group Ltd for a combined amount of \$2.5 million operating under a variable interest rate. As at 31 March 2022 a balance of \$1.365 million remained undrawn.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,417)
8.2	Cash and cash equivalents at quarter end (item 4.6)	(622)
8.3	Unused finance facilities available at quarter end (item 7.5)	1,365
8.4	Total available funding (item 8.2 + item 8.3)	743
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.5
	<i>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.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
	8.6.1 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?	
	<p>Answer:</p> <p>TasFoods Ltd has commenced implementation of key initiatives that are expected to begin providing benefits during Q2 CY22.</p>	

8.6.2 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:

TasFoods Ltd has recently undertaken a two Tranche capital raise for a total of \$5.5 million, followed by a Share Purchase Plan to raise up to an additional \$0.5 million (SPP). The first Tranche of \$3.4 million was completed and received during April 2022. Tranche 2 of \$2.16 million of is fully committed subject to shareholder approval at the May AGM. The SPP is expected to be successful and fully subscribed.

The proceeds of the Equity Raising will be applied to support the implementation of the Company's new strategic direction including general working capital support, connectivity improvements (ERP implementation and business integration), and commercial acceleration initiatives.

8.6.3 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 – TasFoods Ltd has commenced implementation of key initiatives that are expected to begin providing benefits during Q2 CY22.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 27 April 2022

Authorised by: TasFoods Limited Board

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.