

**ASX Announcement:** 27 October 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 30 September 2022 (Q3 2022).

### **Highlights:**

- Gross margin expansion across the Company's key operating divisions despite increased input prices experienced throughout the food and beverage manufacturing industry;
- Focus on cost management initiatives to trade through a high inflationary environment and offer value for customers;
- Strong progress through our top 10 Strategic Reset and Operational Priorities with only three initiatives remaining to be fully implemented;
- Company has adopted a proactive capital management framework with which we assess all strategic opportunities. We have moved to release capital through a sale & leaseback of non-core real estate assets associated with Betta Milk and we continue to assess the strategic options available to us with regard to our portfolio of businesses; and
- Launch of exciting e-commerce assets to reach new customers, access growing online channel and diversify route-to-market strategy

### **Operational Update**

Throughout the quarter the leadership team accelerated the implementation of its revised strategy announced during Q3 that is focussed on setting a strong foundation to improve our earnings position in the Tasmanian market and mainland. Tangible benefits of this revised strategy are now pleasingly beginning to be realised albeit in the early stages of the journey.

Net revenue for Q3 2022 increased by 3.2% over PCP, with the Poultry and Dairy divisions recording a 2.6% and 3.6% increase, respectively.

The Company has continued to implement changes to its pack and price architecture and this continues to drive improved revenue metrics companywide, against PCP:

- Revenue per kilogram in Poultry has increased by 12.9%;
- Revenue per litre in Betta milk has increased by 15.0%; and
- Revenue in MVD core butter and cream brands increased by 10.1% per kilogram and 0.7% per litre, respectively.

Gross margins improved by 2.7% against PCP. This was driven predominantly by Poultry, which saw gross margins improve by 4.7%, whilst Dairy margins remained constant. This culminated in a strong result given the input cost pressures still being experienced industry wide.

As part of the Company's ongoing efficiency program Management have fully implemented its SKU rationalisation program across both the Dairy and Poultry divisions and implemented significant changes to the Company's logistics network. The company has also begun implementing initiatives to reduce per unit conversion costs in its facilities through efficiency and effectiveness measures.

Significant input cost pressures remain and the company continues to be agile in its approach to quickly implement appropriate mitigation strategies. Macro-economic factors and subsequently lower household discretionary incomes have had an impact on volumes sold in the quarter. The Poultry business has seen a 9.7% reduction (excluding organic impact) in kilograms sold whilst Betta milk volumes have reduced by 6.5% against PCP.

The Company's newly implemented ERP system is now operational across TFL's Meander Valley Dairy, Pyengana Dairy and Shared Services business units. Management will focus on embedding this system into these business units before moving to replicate this across both the Betta Milk and Nichols Poultry business units in CY23.

The Company's strategic exit from organic poultry operations has occurred during the quarter, with some one-off costs being incurred.

### **Financial update**

The group recorded a net revenue increase for the quarter of 3.2% over PCP to \$18.1m. Despite this increase the business also saw multiple increases in costs across the supply chain, including:

- Feed costs associated with the Poultry division increased by 20.4% per tonne. Direct cost of goods sold expenditure remained flat versus PCP;
- Milk costs increased by 36.8% per litre over PCP as a direct result of higher farm gate prices; and
- Cream prices increased by a substantial 55.9%.

Despite these increased costs the Company experienced a gross profit margin increase of 2.7% on PCP. This is a pleasing result given current economic conditions. The Company has mitigated the financial impact of a large component of the increased input costs through increased selling prices. This has seen a rapid improvement in key revenue metrics in Q3 2022.

The Company continues to review selling prices given the sustained increases in input costs being experienced but is also balancing this against driving sufficient product volume in the current economic climate.

Distribution, warehousing and logistics costs increased significantly by 19.9% on PCP. Whilst the company has begun mitigation strategies associated with freight surcharges and minimum order quantities across both its poultry and dairy divisions. The rising costs associated with this part of the business have not been completely offset.

The company incurred a one-off expenditure of \$0.2m relating to the closure of the organic poultry operations in Q3 2022.

Utilising the Company's capital management framework, TFL have initiated a sale and lease back of non-core assets associated with Betta Milk. The Company's distribution cool rooms in Hobart, Launceston, Ulverstone and Smithton will be subject to this transaction, subject to a satisfactory sale price being achieved. The proceeds from this transaction will be used to retire debt and for investment into efficiency measures within the logistics network.

### FY22 Strategic Reset & Operational Priorities

As announced to the ASX in February, the Company identified 10 prioritised initiatives that form its core turnaround strategy, aimed at driving operation improvement across the entire TFL business. TasFoods senior leadership team is well progressed in developing detailed operational plans and the practical implementation of these initiatives. An update on the progress of these initiatives is detailed below:

Initiative	Status update	
Fix the Foundations	✓	Complete – with the exception of ERP implementation noted below
Reset Strategic Direction	✓	Complete - Operational plans for implementation now being developed and commenced
Implement Capital Management Framework	✓	Complete - Principles embedded into decision making
Develop Marketing & Brand Investment Plans	🔄	Work in progress - Brand planning now underway for CY23 implementation
Implement ERP	🔄	Work in progress - Meander Valley Dairy, Pyengana Dairy and Shared Services business units successfully implemented. Other business units scheduled for implementation in future months
Distribution & Warehousing	✓	Complete - Supply Chain and Logistics management roles now filled. Certain initiatives implemented with development of a one TasFoods solution underway
Commercial Accountability & Capability	✓	Complete - Key metrics, plans and capability now imbedded into the organisation. This will remain a continued focus of management
Implement Value Chain Findings	✓	Complete - Nichols Poultry findings communicated and implemented. Results of analysis led to a significant reduction of SKU's and other associated changes. Betta Milk and Meander Valley Dairy analysis complete with outcomes implemented in Q3/Q4.

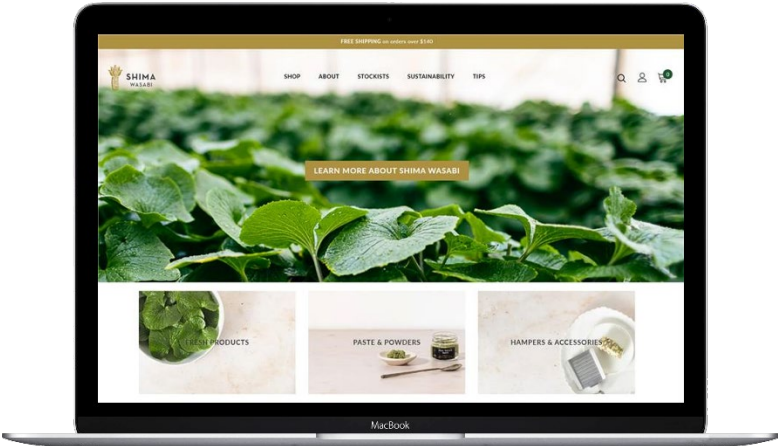
Build Centre of Excellence	✓	Primarily complete with finalisation dependent on ERP implementation
Target Mainland & e-Commerce Growth	🔄	Work in progress

The TasFoods business has undergone significant change in the preceding 9 months and there is an expectation of continued evolution as the new management team build capability in process, systems and people. These changes are expected to further improve efficiencies, leading to improved financial performance for shareholders and a platform for future organic and inorganic growth. Whilst the business transformation agenda is moving at pace it will be a multi-year programme and will deliver further significant benefits over time.

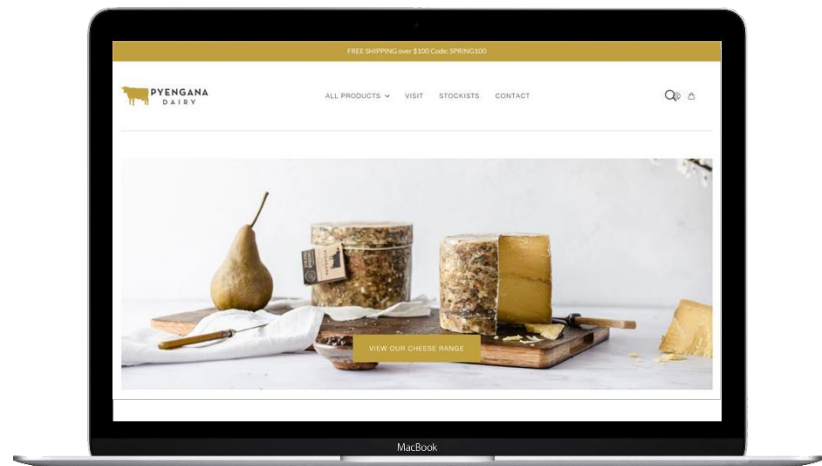
E-commerce Initiatives

Recognising the rising consumer demand for online gifting and direct to consumer food offerings, the Company is investing in the growth of its e-Commerce capability.

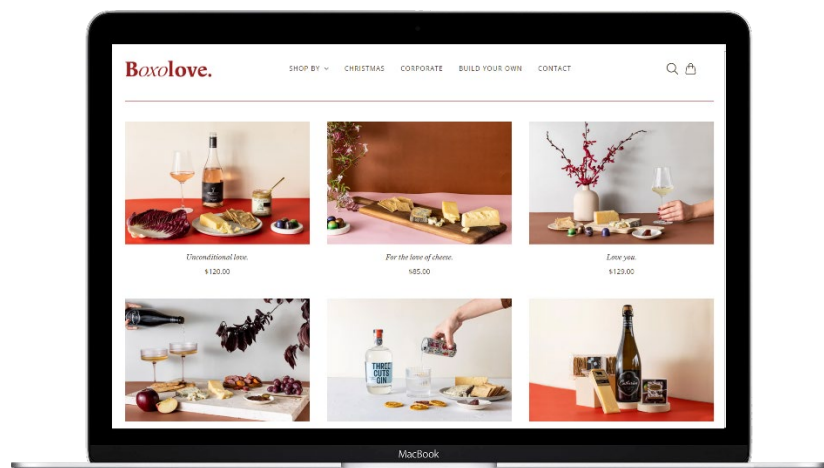
The Company has re-branded and re-launched its authentic real wasabi brand, Shima and initiated a chef ambassador program, partnering with some of Australia’s most recognisable culinary identities and restaurants, including Luke Burgess and Tetsuya’s Restaurant.



To better service consumer desire for authentic offerings with provenance, the Company has relaunched its premium cheese brand, Pyengana, through a new identity, online platform and social presence, with multiple award-winning cheddar and blue cheese offerings now available direct to home.



During October the Company has launched a new luxury and corporate gifting brand, 'Boxolove', targeted at the consumer and corporate gifting market. The online channel will deliver curated hampers, with extensive selections of food and beverages from Tasmania's finest producers.

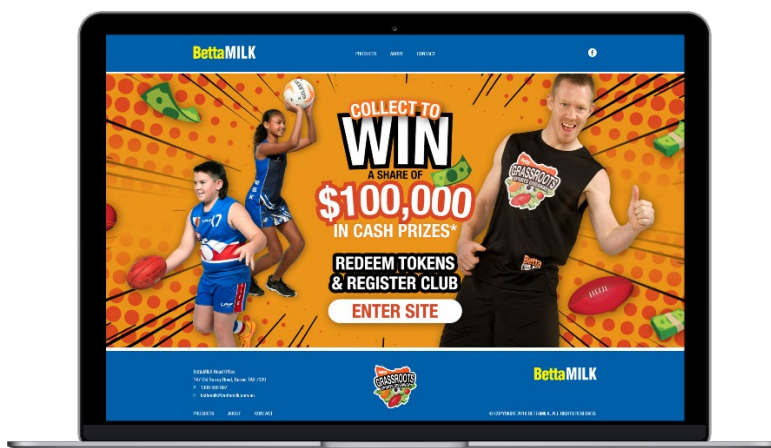


## Dairy Division

Volumes in the Betta business unit reduced by 6.5% against to PCP, primarily as a result of the reset of the Betta cream business implemented in March 2022 and reduced sales of Betta branded milk.

Revenue per litre metrics in Betta Milk significantly increased following implementation of price rises to offset the substantial increases in input costs, particularly milk. There was a timing delay between cost rise impacts and revenue initiatives being implemented with customers, and this led to a small reduction in gross margin percentage of 2.2% against PCP.

In September the Company launched a significant consumer promotion to drive demand for its locally produced and community focussed Betta Milk brand. Together with Jack Riewoldt the Company has offered \$100,000 in cash prizes for grassroots sporting clubs. This has driven significant traction, with over 70,000 redeemed tokens from specially marked packs claimed from ~225 participating clubs.



The Meander Valley Dairy brand recorded a solid quarter, driven by volume increases on PCP in butter (53%). There was a delay in timing of input cost increases and the ability to pass through these increases to customers, which has negatively impacted gross margin within the division. However, all price rises have now been fully accepted. Cream costs remain at all-time highs and supply remains tight, resulting in challenging category dynamics. This has curtailed some of the Company's mainland growth opportunities. TasFoods have significantly simplified this business unit with an ~60% reduction of SKU's. Meander Valley will focus primarily on butter and cream categories as the business resets its focus on high-value and high-margin categories.

### Poultry Division

The Poultry division reported Q3 revenue growth of 2.6% on PCP. In order to establish solid foundations for the future, the business implemented significant changes to this business unit throughout Q3. This included:

- A reduction in SKU offering reduced by ~40%;
- Significant price rises implemented;
- Moved to freight recovery model from customers;
- Minimum order quantities being implemented; and
- Consolidation of multiple freight and logistics service providers to one single provider.

This has resulted in significant gross margin improvement of 4.7% on PCP. Across the quarter, volume sold has reduced by 9.7% against PCP, which is due to a combination of operating model changes and a reduction in grocery spending, particularly in the month of September 2022.

Major input costs of feed and labour increased significantly on PCP with feed increasing by 20.4% per tonne and direct labour 7.6% increase on PCP.

The business closed its organic poultry operations in July 2022 and remediation work at the leased site continued during the quarter. Costs associated with the closure were \$0.2m in the quarter and are one-off in nature.

The strategic review of the poultry business continues post the exit of the organic operations. We believe there are many opportunities for growth and improved performance in this business including customer

acquisition growth, value added product offerings and further operational efficiencies. The Company is proactively exploring initiatives to unlock this growth potential which may be via alliances, vertical integration, mergers or divestment.

### **Quarterly Cash Flow**

TasFoods' Appendix 4C for the quarter ended 30 September 2022 (Q3 2022) has been lodged with the ASX today. Key points include:

- The quarter ended with a closing cash on hand balance of \$1.6 million and unused finance facilities of \$2.56 million.
- Cash receipts from customers were \$18.0 million, an increase of 5.8% on the pc.
- Net operating cash outflows were negative \$1.1 million, reflecting the quarterly trading performance, a net decrease in trade creditors from Q2 2022 of \$0.1 million and a net increase in trade debtors balance from Q2 2022 of \$0.2 million.
- Investment in property plant and equipment of \$0.2 million for the quarter comprised of various plant and equipment purchases across all business units.

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")**

30 September 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	18,008	52,971
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(13,439)	(38,929)
(c) advertising and marketing	(193)	(344)
(d) leased assets	(1)	(4)
(e) staff costs	(4,999)	(15,451)
(f) administration and corporate costs	(547)	(1,895)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(85)	(255)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	127	36
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,129)</b>	<b>(3,871)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(224)	(544)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(12)	(71)

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	189	196
	(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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(47)</b>	<b>(419)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	5,964
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)	(232)
3.5	Proceeds from borrowings	-	41
3.6	Repayment of borrowings	(362)	(1,346)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(363)</b>	<b>4,427</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	3,127	1,451
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,129)	(3,871)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(47)	(419)

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)	(363)	4,427
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	<b>Cash and cash equivalents at end of period</b>	<b>1,588</b>	<b>1,588</b>

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	1,588	3,127
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,588</b>	<b>3,127</b>

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.	<b>Financing facilities</b> <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>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities (includes lease liabilities under AASB 16)	7,971	8,177
7.2	Credit standby arrangements	-	-
7.3	Other (bank overdraft)	2,560	2,560
7.4	<b>Total financing facilities</b>	10,531	10,737
7.5	<b>Unused financing facilities available at quarter end</b>		2,560
7.6	<p>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> <div style="border: 1px solid black; padding: 5px;"> <p>Item 7.1 –</p> <p>TasFoods Ltd Group's total loan facilities (including financial liabilities under AASB 16 Leases) at 30 September 2022 amounted to \$8.0 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 \$2.56 million operating under a variable interest rate. As at 30 September 2022, a balance of \$2.56 million remained undrawn.</p> </div>		

8.	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,129)
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,588
8.3	Unused finance facilities available at quarter end (item 7.5)	2,560
8.4	Total available funding (item 8.2 + item 8.3)	4,148
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	3.7
	<p><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></p>	
8.6	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>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> <div style="border: 1px solid black; height: 40px; margin-top: 5px;"></div>	

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

+ See chapter 19 of the ASX Listing Rules for defined terms.

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?

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?

*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 October 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.

**Appendix 4C**

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

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ASX Listing Rules Appendix 4C (17/07/20)

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