

ASX Announcement: 31 October 2023

Business Activity Report and Appendix 4C Quarterly Cash Flow

TasFoods Limited (**TasFoods**, **ASX:TFL**, the **Company**) today released its Business Activity Report and Appendix 4C Quarterly Cash Flow for the quarter ended 30 September 2023 (Q3 2023).

Highlights:

- Net Sales growth across the Company of 4.0% compared to prior comparable period (PCP);
- Gross margin for the Group improved by 1.0% compared to PCP for the quarter. Poultry experienced a 1.4% gross margin point improvement driven by continuous improvement measures and operational efficiencies implemented by Management over the past 18 months whilst the Dairy division gross margin reduced compared to PCP by 2.0% driven by increased input prices and sales mix;
- EBITDA performance is significantly improved compared to PCP driven by the Poultry divisions continued strong performance;
- Net Operating Cash Flow significantly improved on PCP from \$(1.1m) in Q3 FY23 to \$(0.5) with stronger revenue and improved gross margins
- Indirect costs reduced by 7.0% compared to the PCP as our laser sharp focus on cost management continues to show positive results despite inflationary pressures;
- Announced the transformative sale of Betta Milk and Meander Valley Dairy along with the licensing of the Pyengana Dairy brand for milk to Bega Cheese Ltd (BGA:ASX) for \$11.0m (less employee entitlements). The transaction remains subject to ACCC approval; and
- The Company continues to pro-actively assess our business divisions and the asset profile within these divisions under our Capital Management Framework. We continue to review and assess every avenue to ensure we can drive strong returns for shareholders.

Operational & Business Unit Update

Consumer sentiment continues to be impacted by uncertain economic conditions which has led to household budgets tightening as consumers actively manage spending on everyday purchases in the grocery channel. TasFoods continues to see negative volume impacts particularly in categories such as milk, creams and cheeses where value and private label offerings are growing at the expense of premium brands. Similarly, sales mix in the Poultry division is seeing a move to value cuts away from premium offerings.

Despite the macroeconomic backdrop and volume challenges, TasFoods experienced sales revenue growth on PCP due to Management's focus on driving profitable and marketable SKUs into the grocery and food service channel.

Group total revenue for Q3 2023 increased by 8.0% over PCP, with the Poultry division recording a 16% increase whilst Dairy had a 2% decrease (Cost recovery remains a continued focus whilst balancing affordability and volume impacts).

Gross margins for the Group improved against PCP by 1.0%. The Poultry division gross margin increased by 1.4%, whilst the Dairy division declined by 2.0%. This continues the excellent results in Poultry as a result of the restructuring work undertaken in the last 12 months and we continue to focus on initiatives that will drive gross margin expansion in the division going forward.

Dairy was negatively impacted by input cost pressures still being experienced industry wide and sales mix to lower value products. We anticipate milk costs to remain high.

The Company's laser sharp focus on cost management has seen operating indirect costs reduce by 7% compared to the PCP. The Company's simplification of its logistics network has seen benefits in cost-to-serve being realised that have offset considerable fuel and other input cost increases. Other costs such as indirect employment, marketing, maintenance, IT and overtime have reduced compared to PCP.

Dairy Division

Volumes in the Betta business unit reduced by 9% against PCP largely driven by consumers trading down to value offerings in the grocery channel. The Company's white milk brands decreased by 9% on PCP with cream declining 15% on PCP (primarily because of SKU reduction programme). Revenue per litre has increased 6%, resulting in a net sales decline of only 4% despite the lower volume. Milk costs remain abnormally high being 6% higher than the same period last year and we anticipate consumer purchasing habits in the white milk category will continue to impact on gross margins in the near-term.

The Meander Valley Dairy business unit saw volume increase 9% in cream but decline 44% in butter, as the full impact of our SKU rationalisation programme takes effect and decisions to focus on higher margin products. Net sales and gross margin are up on PCP by 2% and 22% respectively. The premium MVD portfolio continues to face structural challenges from the overall category dynamics and this continues to impact growth opportunities, however we have adjusted our focus to prioritise cream products which has yielded positive results.

Pyengana Dairy, our award-winning premium cheese brand, delivered another excellent growth in the quarter with cheese sales increasing 55% on PCP, primarily as a result of improved distribution through our key mainland partners. We believe the Pyengana Dairy brand has strong customer cut-through and will be implementing initiatives in the near-term designed to deliver improved sales volumes and gross margin with minimal Capex expansion.

Poultry Division

The Poultry division reported revenue growth of 16% on PCP highlighting the robust demand for poultry meat from consumers as household budgets preference cost-effective protein options. We anticipate this dynamic to continue over the foreseeable future given current macroeconomic conditions. Removing the impact of SKU rationalisation (particularly our Organic and Ethical Free Range), sales growth was 20% on the PCP.

The operating and efficiency measures implemented by Management in the Poultry division have shown positive results with net sales, gross margin and EBITDA all significantly improved on PCP.

During the quarter, volume sold increased 6% against PCP. This is due to operating model changes regarding bird liveweight, and revenue per kg increasing by 6%.

Major input cost of feed increased by 2.1% per tonne on PCP, along with increases in grower costs (including the procurement of day-old chicks).

Nichols Poultry is now well placed to continue to deliver expanded sales capabilities along with gross margin expansion through supply-chain enhancements.

Financial update

The Group recorded a net revenue increase for the quarter of 16% over PCP to \$19.6m however the Group also saw multiple increases in costs across the supply chain, including:

- Feed costs associated with the Poultry division (excluding organic farming impact) increased by 2% per tonne. Overall direct cost of goods sold expenditure increased 5% on PCP;
- Milk costs increased 6% per litre over PCP as a direct result of the delivered milk price and
- Cream prices decreased by circa 27% due to new sourcing arrangements.

Distribution, warehousing and logistics costs remained steady on PCP as a result of efficiency strategies implemented which is a solid result given continued cost pressures in this area of the value chain.

Our continued review of cost management extends to our support centre and corporate function to ensure we are driving efficiencies at all levels of our business and we have seen a reduction in expenses in this area.

We anticipate being in a position to drive further cost efficiencies through the corporate and support office functions following the completion of the sale of Betta and Meander Valley Dairy as we right-size the Company for sustained success.

Quarterly Cash Flow

TasFoods' Appendix 4C for the quarter ended 30 June 2023 (Q2FY2023) has been lodged with the ASX today. Key points include:

- The quarter ended with a closing cash on hand balance of (\$2.6)m and unused finance facilities of \$1.9m. The Company continues to assess capital management options to provide liquidity in the near-term.
- The Company expects to have a cash surplus and to retire term debt following the completion of the sale of Betta and Meander Valley Dairy.
- Cash receipts from customers were \$19.6m, an increase of 8.6% on the PCP.
- Net operating cash outflows were \$(0.5)m, which was a \$0.6m improvement than total operating cash outflow for the PCP being negative \$1.1m.
- Investing net cash was neutral for the quarter which includes net proceeds on sale of property, plant and equipment relating to a Betta Milk site of \$0.4m. Investment in property plant and

equipment of \$0.4m for the quarter comprised of various plant and equipment purchases across all business units.

- Financing net cash outflows for the quarter of \$0.3m reduction of debt.

Outlook

Macroeconomic conditions and household budgets are front of mind for consumers. TasFoods brand portfolio includes a range of affordable premium and premium offerings which may continue to be impacted by consumers trading down through the grocery channel. That said, we remain confident that our high-quality offering, particularly in the Poultry division, will continue to perform as consumers seek trusted brands and protein produce at an affordable price point.

Management has worked hard over the past 18 months to right-size the Company to a position where it can compete effectively in category niches. The divestment of Betta and Meander Valley Dairy highlights the continued focus on assessing the TasFoods brand portfolio on the basis of where we can compete effectively. We are proud that the two businesses have been acquired by a high-quality Australian-owned company in Bega Cheese and look forward to completing this as quickly as possible once regulatory approval is received.

Management's work in the Poultry division has set up Nichols Poultry as an emerging force in the affordable premium range of the poultry competitive landscape. We anticipate announcing initiatives that will drive sales growth, gross margin and supply-chain security in the near-term as we continue to develop the Nichols brand.

Q4 is traditionally a busy time for TasFoods with festive season and holiday pantry-stocking driving robust demand for our high-quality produce. Ensuring our supply-chain and logistics capabilities are able to deliver to our consumers on-time will be a focus for all TasFoods team members and we are pleased that the initiatives Management has implemented over the past 18 months has set the foundations for this to be achieved on a cost-effective basis.

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

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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 2023

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	19,564	58,127
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(14,972)	(45,555)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(5,162)	(15,197)
(f) administration and corporate costs	-	-
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(159)	(376)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	204	199
1.9 Net cash from / (used in) operating activities	(525)	(2,802)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(234)	(475)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(219)	(315)

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		686
	(c) property, plant and equipment	416	2,404
	(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	(37)	2,300

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	-	-
3.5	Proceeds from borrowings	-	112
3.6	Repayment of borrowings	(126)	(2,131)
3.7	Transaction costs related to loans and borrowings	(38)	(146)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(94)	(284)
3.10	Net cash from / (used in) financing activities	(258)	(2,449)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	(1,781)	350
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(525)	(2,802)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(37)	2,300

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

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)	(258)	(2,449)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	(2,601)	(2,601)

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	(2,601)	(1,781)
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	(2,601)	(1,781)

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)	6,114	6,114
7.2	Credit standby arrangements	-	-
7.3	Other (bank overdraft)	4,860	2,983
7.4	Total financing facilities	10,974	9,097
7.5	Unused financing facilities available at quarter end		1,877
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 – TasFoods Ltd Group's total loan facilities (including financial liabilities under AASB 16 Leases) at 30 September 2023 amounted to \$6.11 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 3.06% and 8.06%, with the weighted average interest rate being 6.50%.</p> <p>Item 7.3 and 7.5 – 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 \$4.86 million operating under a variable interest rate. As at 30 September 2023, a balance of \$1.88 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)	(525)
8.2	Cash and cash equivalents at quarter end (item 4.6)	
8.3	Unused finance facilities available at quarter end (item 7.5)	1,877
8.4	Total available funding (item 8.2 + item 8.3)	1,877
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.58
	<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?	
	Answer:	

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:

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:

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: 31 October 2023

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.