

ASX Announcement: 28 July 2023

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 June 2023 (Q2 2023).

Highlights:

- Net Sales growth of 11% compared to prior comparable period (PCP);
- Gross margin for the Group remained flat to PCP for the quarter. Poultry experienced a 7% gross margin point improvement driven by recently implemented efficiency measures whilst Dairy gross margin reduced compared to PCP by 5% driven by increased input prices;
- EBITDA performance is significantly improved compared to PCP driven by the Poultry divisions return to profitability;
- Sale of Shima Wasabi business unit for \$700,000 (less employee entitlements at settlement date) representing 1.8x revenue, completed in the quarter. The divestment of Shima Wasabi to Hillwood Berries was undertaken following assessment under our Capital Management framework to ensure TasFoods remains focussed on its core product portfolio and competitive strengths;
- Indirect costs reduced by 5% compared to the PCP as our continued focus on cost management showed positive results despite inflationary pressures; 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

Uncertain macroeconomic conditions led by rising inflation and interest rates has negatively impacted consumer sentiment leading to household budgets tightening as consumers actively manage spending on everyday purchases. TasFoods has seen a volume impact particularly in categories such as milk, creams and cheeses where value offerings are growing at the expense of premium brands. Despite these volume challenges, both Poultry and Dairy divisions experienced sales revenue growth on PCP.

Group total revenue for Q2 2023 increased by 14% over PCP, with the Poultry and Dairy divisions recording a 18% and 9% increase respectively. We continue to be focused on cost recovery and this revenue result includes price increases successfully achieved as we constantly review and assess the opportunity to recover input cost increases and improve financial performance.

Gross margins for the Group remained stable against PCP. The Poultry division gross margin increased by 7%, whilst the Dairy division declined by 5%. This was an exceptionally strong result in Poultry as a result of the restructuring work undertaken in the last 12 months whilst Dairy was negatively impacted by input

cost pressures still being experienced industry wide. We anticipate milk costs to remain high in the short-to-medium term.

The Company's continued focus on cost management has seen operating indirect costs reduce by 5% compared to the PCP. The Company's review of its logistics network has seen benefits in cost-to-serve being realised and have offset considerable fuel and other input cost increases in this part of the business. Other costs such as indirect employment, maintenance and overtime have reduced compared to PCP.

Dairy Division

Volumes in the Betta business unit reduced by 9% against PCP. The Company's white milk brands decreased by 12% on PCP with cream declining 15% on PCP (primarily because of SKU reduction programme). Revenue per litre has increased 14%, resulting in a net sales increase of 4%. Milk costs remain abnormally high being 28% higher than the same period last year, which is significantly impacting gross margin performance.

The Meander Valley Dairy business unit saw volume increase 2% in cream but decline 38% in butter, as the full impact of our SKU rationalisation programme takes effect. Net sales and gross margin are down on last year by 4% and 9% respectively. MVD remains a profitable business unit for TasFoods however significantly increased logistics costs from Tasmania to the mainland are negatively impacting performance. The premium MVD portfolio continues to face structural challenges from the overall category dynamics and this continues to impact growth opportunities.

Given the dynamics and medium-term outlook for the broader dairy sector the Company is actively assessing the best application of capital within the business unit to ensure adequate return on investment for shareholders.

Pyengana Dairy, our premium cheese brand, delivered excellent growth in the quarter with cheese sales increasing 20% on PCP, primarily as a result of improved distribution through our key mainland partners.

Poultry Division

The Poultry division reported revenue growth of 11% on PCP highlighting the robust demand for poultry meat from consumers as household budgets preference cost-effective protein options. Removing the impact of SKU rationalisation (particularly Organic and Ethical Free Range), sales growth was 32%.

The operating and efficiency measures implemented in the Poultry division in 2022 are showing positive results with net sales, gross margin and EBITDA all significantly improved on PCP.

During the quarter, volume sold increased 7% against PCP. This is due to operating model changes regarding bird liveweight, and revenue per kg increasing by 11%.

Major input cost of feed increased by 6.1% per tonne on PCP, along with increases in grower costs (including the procurement of day-old chicks).

Financial update

The Group recorded a net revenue increase for the quarter of 15% over PCP to \$19.7m 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 14% per tonne. Overall direct cost of goods sold expenditure increased 6% on PCP;
- Milk costs increased 33% per litre over PCP as a direct result of higher farm gate prices; and
- Cream prices increased by circa 20%.

Distribution, warehousing and logistics costs remained steady on PCP as a result of the mitigation strategies implemented during 2022 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. We take confidence from the performance of our Poultry division through the quarter that our operating improvements implemented through 2022 are starting to deliver financial benefits.

Similarly, we have a sales and logistics platform that can carry additional capacity and remain active in our pursuit of partnerships that can add incremental revenue to our business units with minimal increase in Capex or operational expenditure.

The nature of food and beverage businesses inherently requires strict working capital management and the Company continues to focus on incremental gains to ensure adequate cash levels. To that extent the sale of the Shima Wasabi business unit for \$700,000 (less employee entitlements at settlement date) has assisted with short term funding. We will continue to assess potential divestments within the capital management framework.

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 (\$1.8)m and unused finance facilities of \$2.2m. The Company continues to assess capital management options to provide liquidity in the near-term.
- Cash receipts from customers were \$20.2m, an increase of 17.4% on the PCP.
- Net operating cash outflows were negative \$0.8m, which was a \$0.5m improvement than total operating cash outflow for the PCP being negative \$1.3m. This is an improved result given the cost pressures being experienced across the Company.
- Investing net cash inflows for the quarter of \$0.6m included net proceeds on sale of the Shima Wasabi business unit of \$0.7m and sale of property, plant and equipment (mainly relating to the sale of the Smithton Betta Milk site) of \$0.1m. Investment in property plant and equipment of \$0.2m for the quarter comprised of various plant and equipment purchases across all business units.
- Financing net cash outflows for the quarter of \$0.6m reflected retirement of debt, including proceeds from the Betta Milk Smithton property.

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

TasFoods contact

Scott Hadley
Chief Executive Officer
+61 3 6331 6983

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 June 2023

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	20,177	38,563
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(15,920)	(30,583)
	(c) advertising and marketing	-	-
	(d) leased assets	-	-
	(e) staff costs	(4,963)	(10,035)
	(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	(116)	(217)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	(4)	(5)
1.9	Net cash from / (used in) operating activities	(826)	(2,277)

2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(162)	(241)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	(58)	(96)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	686	686
	(c) property, plant and equipment	121	1,988
	(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	587	2,337

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	(399)	(2,005)
3.7	Transaction costs related to loans and borrowings	(78)	(108)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(102)	(190)
3.10	Net cash from / (used in) financing activities	(579)	(2,191)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	(963)	350
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(826)	(2,277)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	587	2,337

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(579)	(2,191)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	(1,781)	(1,781)

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	(1,781)	(963)
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)	(1,781)	(963)

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.</i> <i>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)	6,205	6,205
7.2	Credit standby arrangements	-	-
7.3	Other (bank overdraft)	4,560	2,361
7.4	Total financing facilities	10,765	8,566
7.5	Unused financing facilities available at quarter end		2,199
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> <p>Item 7.1 – TasFoods Ltd Group's total loan facilities (including financial liabilities under AASB 16 Leases) at 31 March 2023 amounted to \$6.5 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 \$3.85 million operating under a variable interest rate. As at 31 March 2023, a balance of \$2.91 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)	(826)
8.2	Cash and cash equivalents at quarter end (item 4.6)	
8.3	Unused finance facilities available at quarter end (item 7.5)	2,199
8.4	Total available funding (item 8.2 + item 8.3)	2,199
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.7
	<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	<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> <p>Answer:</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:

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: 28 July 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.