

ASX Announcement

Forbidden Foods Limited ASX: FFF

29 January 2024

Q2 FY2024 Quarterly Activities Report: Record ecommerce sales and strategic market initiatives continue to advance a long-term growth trajectory

Key Highlights

- *Quarterly operations highlighted by record monthly ecommerce sales in November after incoming management team initiated a renewed focus on ecommerce growth, following a period of disinvestment*
- *Investment in strategic marketing initiatives to expand awareness for the Blue Dinosaur brand, including major sponsorship agreement with the Noosa Triathlon (a top 10 triathlon globally) and one-off costs associated with targeted market research and new product launches*
- *Successful product launch for Blue Dinosaur Protein Water – a collagen and whey-based formulation, targeted at the lucrative global market for low-sugar hydration products*
- *Expansion of global addressable market through confirmation of exclusive distributorship agreement with Raw Distribution Trading LLC for the sale & marketing of Blue Dinosaur products throughout the Gulf Cooperation Council (“GCC”) region, with a primary focus on the United Arab Emirates*
- *Board changes highlighted by the appointment of Mr Albert Cheok as Non-Executive Chairman and Mr Nathan Quailey as Non-Executive Director – Both bring a wealth of experience in the FMCG sector and significantly strengthen the composition of the Board*
- *Quarterly (“QoQ”) increase in cash receipts from sales to \$644,000, representing a 9% gain on the prior quarter with further increases anticipated in the March quarter*
- *Strong execution of strategic restructure in the previous quarter reflected through a material reduction in staff costs, which decreased by 33% with further cost benefits budgeted for the following quarters*
- *Management continue to assess multiple strategic acquisition opportunities which have the potential to reduce costs and drive revenue growth*

Forbidden Foods Ltd (ASX: FFF) (“Forbidden Foods” or “the Company”) is pleased to provide the following overview of activities undertaken during the three-month period ended 31 December 2023 (the “quarter”).

Management commentary:

Chief Executive Officer, Alex Aleksic said: “We are pleased to present our latest quarterly trading update, which reflects the ongoing execution of our strategy to scale up revenues in our core target markets while transitioning the business to a lower cost base and establishing a pathway to cash-flow breakeven. Along with our operational momentum, the quarter was highlighted by several strategic initiatives that were prioritised by the new management team to build a long-term framework for growth. In particular, we were very excited about the immediate results generated from a renewed focus on the ecommerce opportunity to incorporate high-margin online sales into our revenue mix. Online sales momentum was accompanied by a successful product launch and market entry into the lucrative MENA region. Lastly, the respective appointments of Mr Cheok and Mr Quailey significantly strengthen the composition of the Board at an important juncture in the Company’s growth cycle. The group’s achievements in the

December quarter marked the ongoing execution of our turnaround strategy to build market share for our flagship Blue Dinosaur product range. Over the medium term, we expect these decisive steps to convert into consistent sales and margin expansion and a pathway to profitability. We look forward to providing further updates as we hit our next round of performance benchmarks in the months ahead."

Operational Review

Record monthly ecommerce sales in November

Quarterly operating highlights included record monthly ecommerce sales for the Company's flagship Blue Dinosaur product range, reflecting the new management team's success in placing a renewed focus on ecommerce sales following a period of underinvestment. Total online sales for the month were \$107,225, which was a month on month increase of 70% from October 2023 and provides the business with exciting ecommerce momentum heading into CY2024 to complement its established distribution channels through physical store networks.

The uptrend in ecommerce was supported by several marketing strategies that were initiated during the quarter, including targeted online advertising spend and the appointment of a specialist digital marketing agency that advised on a suite of solutions for search engine optimisation (SEO) for Blue Dinosaur products.

The allocation of capital towards ecommerce growth was flagged as a strategic priority by new management, and marketing spend during the quarter included several one-off costs that are expected to underpin a longer-term uptrend in ecommerce sales heading into CY2024.

Strategic distribution agreement for Blue Dinosaur products in the MENA region

During the quarter, Forbidden Foods also secured an exclusive distribution agreement with Raw Distribution Trading LLC ("Raw Distribution") (www.rawdglobal.com), a leading MENA-based (Middle East and North Africa) distribution platform. The agreement facilitates the marketing, distribution and sale of the Company's Blue Dinosaur product range across the Gulf Cooperation Council ("GCC") region, with a primary focus on the United Arab Emirates. The agreement is for a three-year term, with exclusivity periods tied to minimum sales targets.

Under the terms of the agreement, Raw Distribution will have access to all Blue Dinosaur products on an exclusive basis for three years. The agreement stipulates a number of minimum sales targets to retain exclusivity from the second year, ranging from A\$150,000 to A\$250,000, with an option for a fourth year based on minimum sales volumes of A\$350,000.

It is anticipated that the agreement with Raw Distribution will unlock access to another lucrative market outside of the Company's existing operations in the US and Australia. Raw Distribution was launched in 2016 to cater for the emerging health and lifestyle market in the MENA region and has built an established distribution footprint with extensive relationships throughout Jordan, Saudi Arabia, Kuwait, the UAE, Oman, Bahrain and Egypt.

New product launches and marketing partnerships

Forbidden Foods also executed on the launch of a new flagship product range, Blue Dinosaur Protein Water. The product has been formulated to target the lucrative market for low-sugar hydration products, with a collagen and whey-based formulation including a complete BCAA (branched-chain amino acids) profile.

The product launch was complemented by the recent initiatives to drive ecommerce growth, which provides the Company with an established online presence to test products and gauge market feedback to inform optimised distribution strategies for its existing physical store network.

Concurrently, Forbidden Foods has prioritised strategic marketing partnerships to boost awareness for its online sales channels, highlighted during the quarter by a successful sponsorship deal at the globally-recognised Noosa Triathlon. Following on from that partnership, Forbidden Foods is now in negotiations for additional sponsorship partnerships with several major health and fitness focused events across Australia in 2024.

Financial and corporate overview:

Strategic Board changes:

Forbidden Foods materially strengthened the composition of its Board with the Appointment of Mr Albert Cheok as Non-Executive Chairman and Mr Nathan Quailey as Non-Executive Director, effective from 1 January 2024.

Across a distinguished 42-year career, Mr Cheok has held senior roles in monetary policy, financial services and equity capital markets, with particular success in the fast-moving consumer goods (FMCG) industry. His sector specific experience was highlighted by his successful Chairmanship of the Auric Pacific Group (2002-2017), which he led to become the largest listed food conglomerate in Singapore. Mr Cheok's policy experience includes the role of Chief Manager (now titled Assistant Governor) of the Reserve Bank of Australia (RBA) from October 1988 to September 1989, before becoming the Commissioner of Banking in Hong Kong.

The appointment of Mr Cheok followed an extensive search that was jointly approved by the incumbent Board, including previous Chairman Mr Jarrod Milani. Accompanying Mr Cheok's appointment, Mr Milani agreed to step down in an orderly transition to ensure an appropriate level of Board independence. Mr Milani remains a major and supportive shareholder in the Company.

Mr Quailey is a senior advertising executive who currently serves as Chief Growth Officer of multinational advertising & marketing agency Ogilvy and has advised extensively in the FMCG sector throughout his career. The Board was pleased to welcome Mr Cheok and Mr Quailey during the quarter and looks forward to leveraging their respective insights and expertise in overseeing the strategic direction of the business.

Cash receipts and operational costs strategy:

Forbidden Foods reported a QoQ increase in cash receipts from sales to \$644,000, representing a 9% gain on the prior period with further increases anticipated in the March quarter. This increase was accompanied by ongoing reductions in staff costs following a strategic group restructure, which decreased by 33% with further reductions in staff costs budgeted for the following quarters.

Product and manufacturing costs for the period totalled \$688,000, including higher inventory costs to buffer stock levels ahead of the Australian holiday period, expected international expansion and execute ongoing initiatives associated with new product launches. The group also expanded its advertising expenditure to capitalise on major year-end event opportunities including the Noosa Triathlon, and absorbed some one-off costs in connection with market research and the online brand relaunch.

The Company expects to maintain its QoQ growth in cash receipts during the March quarter, offset against lower operating cash outflows due to the ongoing reduction in staff costs and a lesser impact from one-off expenses.

ASX additional information:

In accordance with ASX Listing Rule 4.7C.3, Forbidden Foods advises that an amount of \$87,000 was paid to executive and non-executive directors in payment of their directors' fees, salaries, and post-employment benefits.

This ASX announcement has been approved for release by the Board of Directors of Forbidden Foods Ltd.

ENDS

For further information, please contact:

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About Forbidden Foods Ltd

Forbidden Foods Ltd (ASX: FFF) is a health & wellness food company. The Company was established with a vision to provide engaging brands that provide the very best foods to meet consumer demand for clean, sustainable and healthy products. The core brand in the portfolio is Blue Dinosaur® which is sold in Australia & USA.

Appendix 4C

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

Name of entity

FORBIDDEN FOODS LIMITED (ASX: FFF)

ABN

82 616 507 334

Quarter ended ("current quarter")

31 December 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	644	1,237
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(688)	(1,130)
(c) advertising and marketing	(198)	(260)
(d) leased assets	-	-
(e) staff costs	(306)	(762)
(f) administration and corporate costs	(87)	(135)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	32
1.7 Government grants and tax incentives	73	73
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(561)	(942)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	(7)	(7)
(f) other non-current assets	-	-

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	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	20
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	(7)	13

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	300	1,058
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	(40)	(84)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(21)	(28)
3.10	Net cash from / (used in) financing activities	239	946

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	698	352
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(561)	(942)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(7)	13

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)	239	946
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	369	369

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	369	698
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	369	698

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	87
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	1,250	210																																			
7.2	Credit standby arrangements	-	-																																			
7.3	Other (please specify)	120	89																																			
7.4	Total financing facilities	1,370	299																																			
7.5	Unused financing facilities available at quarter end		1,071																																			
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.																																					
	<table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 30%;">Facility</th> <th style="width: 15%;">Facility limit \$A'000</th> <th style="width: 15%;">Amount drawn \$A'000</th> <th style="width: 15%;">Interest rate</th> <th style="width: 25%;">Secured</th> </tr> </thead> <tbody> <tr> <td>American Express – Credit cards</td> <td style="text-align: center;">90</td> <td style="text-align: center;">88</td> <td style="text-align: center;">22.99% p.a.</td> <td>No</td> </tr> <tr> <td>NAB – Credit cards</td> <td style="text-align: center;">30</td> <td style="text-align: center;">1</td> <td style="text-align: center;">13.25% p.a.</td> <td>No</td> </tr> <tr> <td>Moneytech:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> Debtor finance</td> <td style="text-align: center;">1,000</td> <td style="text-align: center;">3</td> <td style="text-align: center;">10.41% p.a.</td> <td>Yes</td> </tr> <tr> <td> Trade finance</td> <td style="text-align: center;">250</td> <td style="text-align: center;">207</td> <td style="text-align: center;">11.61% p.a.</td> <td>Yes</td> </tr> <tr> <td>Totals</td> <td style="text-align: center;">1,370</td> <td style="text-align: center;">299</td> <td></td> <td></td> </tr> </tbody> </table>	Facility	Facility limit \$A'000	Amount drawn \$A'000	Interest rate	Secured	American Express – Credit cards	90	88	22.99% p.a.	No	NAB – Credit cards	30	1	13.25% p.a.	No	Moneytech:					Debtor finance	1,000	3	10.41% p.a.	Yes	Trade finance	250	207	11.61% p.a.	Yes	Totals	1,370	299				
Facility	Facility limit \$A'000	Amount drawn \$A'000	Interest rate	Secured																																		
American Express – Credit cards	90	88	22.99% p.a.	No																																		
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	<p>¹ The ANZ bank overdraft limit is NZD \$10,000 and has been converted to AUD in the above table.</p> <p>The items included as other facilities are the American Express and NAB credit cards.</p>																																					

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(561)
8.2	Cash and cash equivalents at quarter end (item 4.6)	369
8.3	Unused finance facilities available at quarter end (item 7.5)	1,071
8.4	Total available funding (item 8.2 + item 8.3)	879
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.6
	<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	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: We expect that the net operating cashflows will continue to improve through increased sales and ongoing reductions in operating costs. We note that there was marketing spend during the quarter which included several one-off costs that are expected to underpin a longer-term uptrend in ecommerce sales heading into CY2024. The allocation of capital towards ecommerce growth was flagged as a strategic priority by new management.</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: The Company expects to maintain its growth in cash receipts during upcoming quarters as well as achieving lower operating cash outflows due to the ongoing reduction in staff costs and a lesser impact from one-off expenses. Having said that, we have an established relationship with Canterbury Hill Advisory which includes (if required) undertaking a capital raise, which we believe would 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?

Answer: Yes, on the basis that ongoing cost reductions and further sales growth will allow the company to grow and generate positive cashflow in coming quarters.

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.

29 January 2024

Date:

Board of Directors

Authorised by:

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.