



**THE FOOD  
REVOLUTION  
GROUP**

Announcement

August 30, 2019

### **Food Revolution Group FY2019 Results Commentary**

The Food Revolution Group Limited (ASX: FOD) provides its Appendix 4E for the period ending 30 June 2019 and a commentary on results.

#### **Operational highlights**

- Fourth tranche of \$5.4 million to be received next week under strategic investment of \$20.25 million from Careline Australia and its CEO Dr Norman Li, later appointed FOD Executive Chairman
- Chairman Norman Li will have invested \$14.31 million into the Company on the completion of the fourth tranche and the remaining tranches to be invested total an additional \$5.94 million
- Mr Li has made a substantial financial investment and since the announcement of his involvement the Company has significantly expanded its relationships and reach into China with sales expected to materialise in FY20
- The upgrade of the Mill Park processing facility is progressing well and is expected to allow for increased volume and product diversification including a state-of-the-art dry room facility to produce high-end, high-margin functional gels and powder sachets for sale into China. Sales from the plant are expected to commence by the end of H1 FY20.
- During the financial year the Company has welcomed a new strategic investor and Chairman, appointed a new CEO – John Florey, restructured relevant parts of the business (removing over \$1.8 million costs for FY20) and cleared the slate for what the new management team expect to be the commencement of the Company's growth into China.

#### **Financial Commentary**

FY19 was a transformational year for FOD, the Company, welcomed a new strategic investor and Chairman, appointed a new CEO, restructured relevant parts of business through the appointment of a new site manager, NPD manager, QA manager and the addition of a China Liaison officer for export, effectively clearing the slate for what the new management team expect to be the commencement of the Company's growth into China.

FOD achieved gross sales revenue of \$32 million for FY19. The revenue number was primarily impacted by lower co-pack volumes that products FOD produce for brands not owned by FOD. The business effectively broke-even on a normalised basis with a result for FY19 of -\$0.5 million. As part of the restructure the company processed a number of and one of items totalling \$13.95 million taking a very conservative approach to reset the business with a clean slate for FY20.



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## Outlook

FOD expects to see top line growth of circa 25% in FY20 and provides revenue guidance of over \$40 million with new product ranges being released and the new dry room facility will be completed during the second half of FY2020. Note this forecast does not contemplate any material sales to China which could provide significant upside to this number. The Company expects gross margin for FY20 to improve to well above 30%.

The Company has undertaken a cost review to reduce expenditure on labour, materials and services that are expected to generate cost-savings of up to \$1.8 million per year.

FOD management anticipates expenses in FY20 to be less than FY 18 expense levels after the implementation of cost cutting initiatives.

The interest from China in the Company's powder and gel facility has been overwhelming with more than 100 potential customers visiting the Mill Park facility for discussions. Sales from the plant are expected to commence by the end of the first half of FY20. As well as China, the Company now has distributors for Hong Kong & Singapore. Costco Shanghai's store opened this week with a second container ordered and on its way.

## Revenue Breakdown

	FY2019 (\$)	FY2018 (\$)	Comment
Branded sales	16,288,113	17,184,156	Due to a change in sales mix in the grocery channel – we expect this to be rectified in FY20 as new brands and SKUs roll out with major supermarkets Woolworths, Coles, Aldi, Metcash.
Co-packing/ Ingredients	14,251,175	16,313,699	Copacking volumes were 12% lower than the prior year. FOD actively engaged co-pack clients about taking over their brands, development and Innovation increasing volumes and margin for FY20.
Logistics and Services	1,399,718	1,799,335	Lower sales of services due to lower co-packing volumes
Other sales	108,005	330,481	
<b>Total</b>	<b>32,047,012</b>	<b>35,627,672</b>	



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## Financial Summary

	FY2019 (\$)	FY2018 (\$)	Comment
<b>Gross Sales</b>	32,047,012	35,627,672	
<b>Gross Profit</b>	8,456,626	13,206,570	GP affected by product mix and increases in the costs of labour and materials – fruit costs and labour costs have been locked in at lower rates for FY20
<b>Other Income</b>	1,828,300	3,158,663	
<b>Expenses</b>	21,876,475	13,121,201	
<b>(Loss)/Profit before Income Tax</b>	(14,449,431)	1,062,089	
<b>Adjustments</b>			
Provision for doubtful debts	2,622,197	865,907	Increase in doubtful debts provision for sale of processing technology in 2017. This relates to a sale of previous capital assets and not related to the company's trading customers
Impairment of non-financial assets	3,470,131	380,772	Impairment of Goodwill, Product Development and Brands – primarily JuiceLab which was recognised on the balance sheet on the IPO. Company has developed new brands
Other one-off Operating Expenses	3,334,000		Settling an account with Heinz relating to proposed business acquisition
Depreciation & Amortisation	2,051,500	1,598,049	
Finance & Interest costs	840,391	626,993	
Write-off of R&D tax credit	1,633,682		Company conservatively reduced the R&D tax credit which is available to offset tax payable in the future
Total Abnormal/one-off costs	13,951,902	3,471,721	
<b>Normalised (loss)/Profit before income tax</b>	(497,529)	4,533,810	



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**About The Food Revolution Group**

The Food Revolution Group Limited (ASX: FOD) is an Australian-based food processing company that uses a combination of conventional juice processing equipment and custom-developed equipment and processes to manufacture a range of high-quality juices, fibres, infused fruits and fruit waters that are sold as branded products or ingredients to customers domestically and overseas.

FOD uses a range of processing technologies, including Current Counter Extraction (CCE) technology which was developed in conjunction with Australia's CSIRO to extract juice from fruit and vegetables. Its processing facilities are located in Mill Park, Victoria.

FOD is aiming to generate shareholder value through exploring opportunities for growth in the functional food, beverage and nutraceutical markets in Australian and key international markets, including China.