

ASX Announcement: 28 August 2023

Asset Sales to Reposition TasFoods for Profitable Growth 1H 2023 Results

TasFoods Limited (ASX: TFL, TasFoods or the “Company”) is pleased to announce that it has entered into a binding business sale contract with Bega Cheese Limited (ASX: BGA, Bega) subject to a number of conditions for the sale of Betta Milk and Meander Valley Dairy for the cash consideration of AUD \$11.0 million (less employee entitlements), plus inventory adjustment (together the “Transaction”).

As part of the Transaction:

- Bega will acquire the Betta Milk and Meander Valley Dairy brands, Betta Milk plant and equipment (P&E) and the staff in both divisions;
- The Acquisition includes a perpetual, royalty free licence to use the Pyengana Dairy brand for milk and cream products in Australia;
- TasFoods will retain the land and buildings associated with Betta Milk at Burnie site, as well as the lease associated with Meander Valley Dairy at Launceston; and
- TasFoods will enter into a lease agreement for Bega to lease the Burnie site and TasFoods will sublease the Launceston site to Bega.

The Transaction is subject to the satisfaction of certain conditions, including the transfer of relevant assets, licenses and IP and employees required to operate the Betta Milk and Meander Valley businesses, transfer of material supply contracts and the Australian Competition and Consumer Commission (“ACCC”) not objecting to the Acquisition.

Net proceeds of the Transaction will be used to retire all of TasFoods existing term debt and fund future growth capital requirements in accordance with the Company’s capital allocation framework to determine the appropriate manner to maximise shareholder value.

Following the completion of the Transaction, TasFoods will be debt free and well-capitalised to continue to grow its poultry operation, Nichols Poultry and premium cheese producer Pyengana Cheese, taking advantage of demand for high-quality, premium Tasmanian produce.

Scott Hadley, Chief Executive Officer of TasFoods said: “The sale of Betta Milk Dairy and Meander Valley Dairy businesses and the licensing of Pyengana Milk represents an important strategic step towards simplifying TasFoods and strengthening the Company’s balance sheet.

“Since the announcement of the new Strategic Focus in March 2022, the TasFoods’ Board and senior management team have continued to assess the divisions and asset base of the Company through the lens of where our expertise and core capabilities can add value. We have been the proud owners and operators of Betta Milk and Meander Valley Dairy since 2019 and 2015 respectively.

“It is pleasing that Bega, an iconic Australian company with a strong heritage in both the dairy sector and Tasmania, has chosen to add Betta Milk, Pyengana Milk and Meander Valley Dairy to its stable of brands. We are confident that the Betta Milk and Meander Valley Dairy business, its customers and employees will continue to thrive under the custodianship of an equally proud, Australian-owned group in Bega.

“The transaction allows us to sharpen our focus on delivering organic growth across Nichols Poultry and Pyengana Cheese, while continuing to identify and evaluate strategic and financially compelling opportunities in adjacent, high-growth food & beverage sectors to create sustainable value for our shareholders.”

1H 2023 Results

The Company today also released its financial results for the half year ended 30 June 2023 (1H 2023), with the successful implementation of pricing and channel initiatives and a sharp focus on cost management delivering improved revenue and profitability metrics for the half despite continued challenging economic conditions.

Highlights

- Total operating revenue for the period of \$38.2 million, showed positive growth increasing 11.8% on pcp (prior comparable period). Despite challenging conditions posed by the macroeconomic backdrop of rising inflation and interest rates, TasFoods’ strong growth was primarily driven by the successful implementation of increased pricing measures;
- Gross margin for the Group increased by 2% for the period against pcp, largely driven by an improvement in gross margin for the Poultry division which experienced an 8% increase following the successful implementation of efficiency measures. Despite the strong growth, the Dairy division experienced a decrease in gross margin by 6% compared to pcp, a result of inflationary cost pressure increasing input prices;
- EBITDA performance significantly improved compared to pcp driven largely by the strong turnaround within the Poultry division which has seen a return to profitability for the period;
- Continued focus on cost management initiatives throughout 1H 2023 has seen indirect operating costs reduced 2% on pcp. Reduction in logistics, professional fees and R&M were partially offset by the impact of build in capability in both people and systems;
- In line with the Company’s strategy to proactively assess our business units and the asset profile within divisions using the Board-approved Capital Management framework, TasFoods completed the sale and lease back of non-core real estate assets associated with Betta Milk in Smithton and the sale of Shima Wasabi; and
- Sale of Betta Milk and Meander Valley Dairy post-30 June 2023 progresses the strategic repositioning of the Company and establishes a foundation, both strategically and commercially, from which to drive strong returns for shareholders.

Commenting on the 1H 2023 result, Mr Hadley said “Revenue performance has been particularly pleasing in H1 2023 in light of the market challenges the business has faced. We have observed consumers in the grocery channel preference affordable options over premium brands and to have delivered growth on the pcp along with gross margin expansion within that environment highlights the value of TasFoods’ brand portfolio. Input costs remain stubbornly high and this has limited the Company’s ability to turn the improved revenue performance into positive EBITDA. The business remains focused on efficiency and effectiveness measures to maximise cash flow and profitability.”

Financial Performance

	1H23					1H22				
	Dairy	Poultry	Horticulture	Shared Services	Total	Dairy	Poultry	Horticulture	Shared Services	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	15,518	22,396	205	38	38,158	14,789	19,106	198	38	34,131
Expenditure	(14,644)	(21,537)	(1,399)	(3,406)	(40,986)	(14,476)	(20,230)	(216)	(3,559)	(38,482)
EBITDA	874	859	(1,194)	(3,368)	(2,828)	341	(1,061)	(45)	(3,521)	(4,285)
Sale of Assets	(647)	19	1,121	-	493	-	-	-	-	-
Movement in Fair Value	-	249	-	-	249	-	73	43	-	116
Impairment Expense	-	-	-	-	-	-	-	-	-	-
Operating EBITDA	227	1,128	(72)	(3,368)	(2,086)	341	(988)	(2)	(3,521)	(4,169)
GP Margin	26%	23%	39%	24%	24%	32%	15%	49%	-	22%
NPAT					(3,810)					(5,406)

TasFoods has reported a 1H 2023 statutory net loss after tax of \$3.8 million, compared to a statutory net loss after tax of \$5.4 million for 1H 2022.

- Sales revenue across all operating divisions increased by 11% compared to pcp, with the Poultry and Dairy divisions recording a 17% and 5% respectively, driven primarily by the successful implementation of price and channel management initiatives.
- Operating EBITDA was much improved with an EBITDA loss of \$2.1m a 51% improvement of pcp (\$4.2m loss).
- Gross margin of 24% (1H 2022: 22%) was significantly impacted by rising supplier input cost of milk, poultry feed, energy and distribution costs.
- We sold our horticulture business, Shima Wasabi, and this resulted in a \$1.1m loss on sale.

Operational Performance

Sales revenue for 1H 2023 in the dairy division was \$15.5 million, a 5% increase from the pcp despite challenging market conditions. Whilst the Dairy division was able to deliver growth during the period, continued cost rises relating to raw milk and cream procurement contributed to a decrease in the operating EBITDA result of \$0.2m (a decrease of \$0.1m on pcp). Whilst steps were taken to pass on these cost increases during the period, the division achieved a gross profit margin of 26% representing a 6% reduction on pcp. Profit on the sale of the Hobart depot and Smithton cool room totalled \$0.6m.

The Poultry division delivered strong sales revenue of \$22.4 million for the period, a positive increase on pcp of 17% with operating EBITDA of \$1.1 million a positive increase of \$2.2 million for the period. The strong growth experienced within the Poultry division was largely attributed to the implementation of pricing and channel initiatives along with our success in growing mainland sales experienced during the 1H of 2023. Poultry is an affordable source of protein and we anticipate continued consumer demand for poultry products within the grocery channel as consumers manage household budgets through a period of economic uncertainty.

Despite strong improvements during the period, this was offset by rising input costs of feed, grower costs and labour, a result of the macroeconomic backdrop of rising inflation and interest rates.

The horticulture segment (Shima Wasabi) was sold at 30 June 2023 with a sale price of \$0.7 million less employee entitlements. This realised a net EBITDA loss of \$1.1 million. Total loss on sale of business was \$1.1 million including loss on biological assets.

Initiatives implemented to right size our shared services centre has resulted in a 4.5% improvement in EBITDA performance for this segment. Specific areas of focus have been in procurement, logistics, R&M and IT which have seen efficiency benefits from a continued cost-out focus.

Balance Sheet

Net assets at half year end were \$14.7 million (FY22: \$18.3 million), representing 3.4 cents per share (FY22: 4.2 cents per share).

Cash and cash equivalents as at 30 June 2023 were \$1.0 million (FY22: \$0.4 million), and undrawn facilities of \$2.5 million (FY22: \$3.3 million).

Total borrowings as at 30 June 2023 were \$6.5 million (FY22: \$5.8 million).

Cash Flow

Key points relating to TasFoods' cash flow for the half year ended 30 June 2023 include:

- The half ended with a closing cash on hand balance of \$1 million and unused facilities of \$1.8 million.
- Cash receipts from customers were \$38.6 million, an increase of 10% on the pcp.
- Net operating cash outflows were negative \$2.3 million, an improvement of 17% on the pcp
- Investment in property plant and equipment of \$0.2 million comprised of various plant and equipment purchases across all business units.

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

- Ends -

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About Betta Milk and Meander Valley Dairy

Betta Milk was established in 1956 as a co-operative and acquired by TasFoods in July 2019 for \$11.5m. At the time of acquisition Betta Milk was forecast to achieve A\$16.7m revenue for FY19 with 17% of Tasmania's fresh milk sales and 37% of branded milk sales. Betta Milk continues to manufacture, market and distribute its popular Betta Milk white milk products along with a range of value-add and flavoured milk products throughout Tasmania.

Meander Valley Dairy is a leading producer of premium and affordable-premium cheese, milk and cream products manufactured from local, Tasmanian milk. Meander Valley was acquired in September 2015 for \$2.1m and had generated approximately \$1.3m in revenue to the 12 months of 30 June 2015.

Together, Betta Milk and Meander Valley generated approximately \$30.5m in revenue for the 12 months to 31 December 2022.