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Freedom Foods Group Limited (ASX: FNP)
2021 half-year financial results release

$ million	H1 FY21	H1 FY20[1] (restated)	Change	Change (%)
Revenue	$317.3	$287.8	$29.5	10
Continuing operations[2]	$291.4	$253.2	$38.2	15
Continuing operations adjusted EBITDA (pre-AASB 16)[3]	$21.7	($26.5)	$48.2	182
Consolidated adjusted EBITDA (pre-AASB 16)[4]	$13.9	($37.0)	$50.9	138
NPAT	($23.9)	($63.5)	$39.8	62
Continuing operations	($15.2)	(50.2)	$35.0	70
Earnings per share (CPS)	(8.6)	(23.2)	14.6	63

$ million	H1 FY21	FY20 (restated)	Change	Change (%)
Shareholder equity	$38.1	$61.0	($22.9)	(38)
Net debt	$326.9	$292.3	($34.6)	(12)
Net tangible assets per share (CPS)	0.94	8.75	7.81	(89)

Summary

- Total revenue from continuing operations of $291.4m, an increase of 15% on the previous corresponding period (restated)
- Group returned to positive operating earnings, with adjusted EBITDA from continuing operations of $21.7m compared to a loss of $26.5m (restated)
- Positive cash flow from operations before financing costs and non-recurring adjustments of $4.4m, $30.5m higher than the previous corresponding period
- Dairy and Nutritionals revenue up 15% to $209.8m, with positive adjusted EBITDA of $8.5m
- Plant-based Beverages revenue up 17% to $75.2m, with adjusted EBITDA up 21% to $15.2m
- Export revenue up 36% to $65.5m, now 21% of overall revenue

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[1] All H1 FY20 figures restated
[2] Excludes Cereal and Snacks operations to be divested under a binding sale agreement with The Arnott's Group
[3] Adjusted for non-trading and non-recurring items (including restructuring costs, product recall costs and unrealised foreign exchange loss), pre AASB 16. The H1 number for continuing operations adds back $1.6m of corporate overhead allocated to Cereal and Snacks that is expected to remain with the business post divestment. This number is subject to change.
[4] Consolidated EBITDA including Cereals & Snacks adjusted for non-trading and non-recurring items (including restructuring costs, product recall costs and unrealised foreign exchange loss), pre AASB 16

- Statutory net loss after tax of $23.9m, compared to a loss of $63.5m (restated)
- H1 FY20 half results restated to reflect past accounting matters and asset impairments, in line with the restatement process undertaken for FY20 full-year result
- H1 FY21 EBITDA results should not be extrapolated into potential H2 FY21 performance, which is expected to be lower driven by lower volumes and revenue in the Dairy and Nutritionals segment (due to seasonal and customer factors) and as the business catches up on certain expenditure not incurred in 1H FY21
- Divestment of Cereals and Snacks on target for completion in March
- Specialty Seafood division remains under review, with the immediate focus on transformation and operational initiatives within the core Dairy and Nutritionals and Plant-based Beverages businesses
- Progress on recapitalisation continues to be made, with an update to be provided mid-March. Until then the shares will remain in voluntary suspension

Strategy and outlook

Freedom Foods Group Limited Interim Chief Executive Officer Michael Perich said:

“These results demonstrate the potential of the businesses within Freedom Foods Group, with both our Dairy and Nutritionals and Plant-based Beverages operations delivering solid growth and positive operating earnings in a challenging period.

“Most importantly, the results show the financial and operational turnaround strategy underway across the Company is beginning to gain traction. By working hard to remove complexity across the business – as well as improving our culture, governance and accountability – we are able to focus our attention on the brands and products with the greatest potential.

“Despite the ongoing impact of COVID-19 and associated lockdowns on our key markets, particularly the out-of-home channel, our flagship brands, including MILKLAB, Australia’s Own and PUREnFERRIN lactoferrin continue to deliver strong growth.

“We will look to continue growing sales, with further penetration of MILKLAB in the out-of-home market, growth of Vital Strength and other nutritionals brands and increasing inroads in Asian export markets.

“While there remains a lot of work to be done to ensure Freedom Foods Group can meet its full potential, these results validate our decision to focus on building a world-class business around our market-leading Dairy and Nutritionals and Plant-based Beverages brands.

“Once the recapitalisation is complete, we will have a capital structure that allows us to continue to focus on delivering on our turnaround strategy and restore the Group to sustainable and long-term profitable growth.”

Financial Summary[5]

The Group made a statutory net loss after tax for H1 FY21 of $23.9 million, an improvement on a loss of $63.5 million in the previous corresponding period. Net sales increased 10 per cent to $317.3 million. However, sales from continuing operations, excluding the loss-making Cereal and Snacks business now under a binding sale agreement, rose 15 per cent to $291.4 million.

Adjusted EBITDA from continuing operations[6] of $21.7 million represented a significant $48.2 million turnaround from an EBITDA loss of $26.5 million in the previous corresponding period, with the Dairy and Nutritionals business returning to profitability and Plant-based Beverages showing continued growth in operating earnings. The improvements came despite the ongoing impact of COVID-19 and associated government lockdowns, which have prompted pantry-stocking of UHT products but have also affected sales in the Group's higher-margin out-of-home market.

Adjusted EBITDA excludes restructuring costs in the half-year of $10.1 million.

Cash flow from operations before financing costs and non-recurring adjustments was positive for the half year at $4.4 million, up $30.5 million compared to the previous corresponding period.

Despite the impact of COVID-19 on international trade and shipping, overall export sales to Southeast Asian markets rose by 33 per cent to $22.2 million, reflecting increasing market acceptance of the Australia's Own and MILKLAB brands. Export sales of UHT milk products to China rose by 38 per cent to $43.0 million led by increased sales to contract partners. In total, export sales rose 36 per cent to $65.5m and now represent 21 per cent of Group revenue. Revenue from China and South East Asian markets will be lower in H2 FY21 given seasonal factors associated with the Lunar New Year.

Net assets fell to $38.1 million, compared to $61.0 million at 30 June 2020, reflecting the operating performance.

As at 31 December 2020, net debt (pre-AASB 16 lease liabilities) was $326.9 million, an increase of 12 per cent since 30 June 2020 reflecting restructuring expenses, bringing suppliers back into terms and increased financing costs. The Group has negotiated a standstill agreement with its lenders until 30 April 2021, subject to certain milestones, to enable it to complete its proposed recapitalisation plan.

As disclosed with the release of the Group's FY20 full-year results in November 2020, the FY20 audit by Deloitte and a forensic accounting investigation by PwC identified a range of accounting matters going back a number of years. These matters have resulted in a material restatement of the Group's prior period accounts and material write-downs and adjustments. Of the $144.6 million in adjustments for full year to 30 June 2020 disclosed in the FY20 Annual Report, adjustments for the six months to 31 December 2019 totalled $67.9 million. The Group is cooperating with the Australian Securities and Investments Commission in relation to investigations into these matters.

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[5] All H1 FY20 figures restated

[6] Adjusted for non-trading and non-recurring items (including restructuring costs, product recall costs and unrealised foreign exchange loss), pre AASB 16

Operational summary[7]

Segment	Revenue			Adjusted EBITDA pre AASB 16[8]		
$ million	H1 FY21	H1 FY20 (restated)	% change	H1 FY21	H1 FY20 (restated)	% change
Dairy and Nutritionals	$209.8	$182.0	15	$8.5	($20.9)	141
Plant-based Beverages	$75.2	$64.4	17	$15.2	$12.6	21
Specialty Seafood	$6.4	$6.7	(5)	($0.05)	($0.68)	92
Unallocated shared services	n.a.	n.a.	n.a.	($2.0)	($17.5)	89

Dairy and Nutritionals

A leading producer of long-life UHT dairy milk, nutritional products and performance powders

Revenue for the six months to 31 December 2020 rose 15 per cent to $209.8 million as the business returned to profitability with adjusted EBITDA of $8.5 million compared to a loss of $20.9 million previously.

The business has launched a transformation and operational turnaround strategy focused on number of areas, including reducing wastage, production efficiencies, removing or reducing unprofitable products, optimising milk supply and curtailing losses from the sale of surplus milk as experienced in previous periods.

In Australia, retail UHT sales benefited from pantry-stocking during COVID-19 lockdowns, although this benefit has been declining and is partially offset by an associated reduction in the higher-margin out-of-home market. Demand for cream and butter, which was adversely affected by COVID-19 lockdowns, continues to improve with the continued reopening of restaurants and cafes as restrictions are eased, although pricing remains below long-term trends.

Dairy exports to South East Asia and China – among the world's largest and fastest-growing UHT markets – remain strong, with sales of Group brands and contracted customer brands continuing to track ahead of the previous corresponding period.

Sales of the Company's PUREnFERRIN lactoferrin product increased 67 per cent in the half year compared to the previous corresponding period.

Sales of consumer nutritionals, including Vital Strength, UPROTEIN and Crankt Protein, continue to improve following a fall in demand caused by the temporary closure of gyms and specialty stores during COVID-19. These products are benefiting from strong demand for protein sports nutrition products driven by the prevalence of active lifestyles among the Australian population and the increasing popularity of high-protein, low-carbohydrate diets. Sales through the e-commerce and pharmacy channels are having a positive impact on revenue and margins.

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[7] All H1 FY20 figures restated

[8] All segment EBITDA is post allocated corporate overhead

Plant-based Beverages

A leading producer of long-life UHT products including soy, rice and almond milk and liquid stocks

Revenue increased 17 per cent to $75.2 million as the plant-based beverages segment overcame the impact of COVID-19 on the out-of-home market to deliver robust growth across all channels and all brands, particularly MILKLAB. Adjusted EDITDA rose 21 per cent to $15.2 million, with profitability continuing to improve as economies of scale increase.

MILKLAB sales increased 50 per cent in the half year, with the brand continuing to build customer loyalty as health-conscious consumers increasingly opt for plant-based milks, particularly in the fast-growing specialty café market. MILKLAB is now sold in more than 8,000 cafes, with enormous potential for expansion through new milk alternative products such as oat milk, new sales channels such as quick service restaurants and grocery stores, and in international markets, such as New Zealand, South East Asia and China.

Freedom Foods Group is committed to undertaking disciplined capital investment to increase production capacity to meet growing demand.

Specialty seafoods

A leading producer of a range of canned seafood, including sardines and salmon

While Brunswick Sardines maintained its brand leadership position in Australia and New Zealand and Paramount Salmon performed well, revenue for the six-month period fell 4 per cent to $6.4 million as COVID-19 disrupted global supply chains, causing stock shortages.

Adjusted EBITDA improved to return to close to breakeven, with demand for shelf-stable products during COVID-19 enabling the Group able to pass on higher seafood prices while reducing promotional activity and prioritising trade marketing spending.

Freedom Foods Group and its advisers continue to review all strategic options for the Specialty Seafood business, including divestment.

Cereal and Snacks

Following a strategic review of Cereal and Snacks, Freedom Foods Group announced on 17 December 2020 it had entered into an agreement to sell certain assets and liabilities of the business to The Arnott's Group.

The sale includes the Cereal and Snacks manufacturing facilities in Leeton and Darlington Point in NSW and in Dandenong in Victoria, as well as brands associated with the business, including Freedom Foods, Messy Monkeys, Heritage Mill, Arnold's Farm and Barley+.

The sale does not include the important Crankt Protein brand, which has been retained and is now consolidated in the Dairy and Nutritionals business.

The sale is on target to be completed in March and will deliver estimated net proceeds of $11 million after deducting costs associated with the transaction and associated equipment leases.

Cereal and Snacks recorded an adjusted EBITDA pre AASB 16 loss of $7.7 million in the December half year, compared to $10.5 million loss (restated) previously as key product lines failed to recover the cost of production. As anticipated, a planned rationalisation of loss-making product lines and a reduction in trade marketing resulted in a fall in sales, with revenue for the half-year down 30 per cent to $26.0 million.

Recapitalisation plan

Freedom Foods Group continues to progress the recapitalisation plan which was outlined in the ASX announcement of 29 January 2021. The plan,supported in-principle by the Group's majority shareholder Arrovest Pty Ltd and with the indicative in-principle support of the Group's lenders, will put the Company on a secure financial footing by substantially repaying existing debt facilities, allowing it to continue to execute its turnaround strategy.

Freedom Foods Group believes the recapitalisation plan represents the best outcome for the Company and its shareholders given its current circumstances. In particular, the plan is less dilutive than several alternative funding options and provides shareholders with the potential to participate in the capital raising and share in any future upside.

It is anticipated that full details of the plan, of which key measures will be subject to shareholder approval, will be provided in mid-March. Until that time, the Company's shares will remain in voluntary suspension.

Board renewal

Following the Company's Annual General Meeting, Genevieve Gregor was named Chair as part of the ongoing Board renewal program. The Board intends to appoint a new non-executive director, who will become Chair or the Finance and Audit Committee. This role is currently held in an interim capacity by non-executive Director Tim Bryan, a qualified chartered accountant.

Investor inquiries

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Authorised by the Board of Directors