

ASX Announcement: 27 February 2023

Strong foundations established paving the way for business recovery and growth

TasFoods Limited (ASX:TFL) today released its financial results for the full-year ended 31 December 2022 (FY 2022).

Highlights:

- Sales revenue grew by 1.6% over prior comparative period (pcp) to \$70.6 million (2021: \$69.4 million). This result is despite undertaking an extensive product and customer rationalisation programme to simplify operational rhythm and deliver superior margins.
- Operating EBITDA (excluding impairment charges) of \$(7.3) million (2021: \$(4.7) million) was impacted by significant global and local headwinds driving cost inflation impacts to key ingredients and inputs across the supply chain in the Dairy and Poultry businesses and targeted investment in capability within Shared Services to drive business performance.
- The Company made the decision to exit its Organic Poultry operations and this exit was completed in 2H 2022.
- Completion of successful capital raising in March 2022 with receipt of \$5.7 million, net of associated costs. The Company was extremely pleased with the level of support received by existing and new investors.
- Implementation of our *Top 10 Foundation Building Strategic Initiatives* which will enable the business to return to profitable growth is largely complete. These initiatives will produce positive tangible benefits in 2023 and beyond.
- We significantly increased our focus on our key brand franchises in the period with brand awareness campaigns for both Nichols chicken and Betta Milk both executed, and also launched a new e-commerce initiative, Boxolove, targeted at the consumer and corporate gifting market.
- Reduced gross margin of 22% (2021: 27%) as result of significant per unit input cost increases, particularly in Dairy. Milk increased by 30% per litre and cream increased by 13% per litre, over the pcp. Poultry gross margin was slightly improved to 18% (2021: 17%) and this is a result of the strategic changes we made to the business in 2H 2022.
- Continued Board renewal with the confirmation of John Murphy as Chairman following the retirement of Craig Treasure.
- Cash position of \$0.4 million at 31 December 2022 plus undrawn facilities of \$3.3 million.

Financial & Operational Performance

	2022					2021					Change \$'000	Change %
	Dairy \$'000	Poultry \$'000	Horticulture \$'000	Shared Services \$'000	Total \$'000	Dairy \$'000	Poultry \$'000	Horticulture \$'000	Shared Services \$'000	Total \$'000		
Total Revenue	31,213	39,858	423	120	71,615	30,497	39,083	412	76	70,067	1,548	2.2%
Operating Expenditure	(29,738)	(41,368)	(518)	(7,338)	(78,961)	(28,162)	(40,439)	(451)	(5,735)	(74,788)	(4,173)	5.6%
Operating EBITDA	1,475	(1,509)	(94)	(7,218)	(7,346)	2,334	(1,356)	(39)	(5,660)	(4,720)	(2,626)	-55.6%
GP Margin	29%	18%	59%	0%	22%	35%	17%	60%	0%	27%		-5.0%
Movement in Fair Value	0	298	77	0	375	(32)	(113)	69	0	(76)		
Impairment Expense	(3,925)	(2,910)	0	0	(6,835)	(2,770)	(1,137)	0	0	(3,907)		
EBITDA	(2,449)	(4,122)	(17)	(7,218)	(13,806)	(468)	(2,606)	30	(5,660)	(8,704)	(5,102)	-58.6%
NPAT					(16,478)					(10,741)		

TasFoods has reported a 2022 statutory net loss after tax of \$16.5 million (-4.03 cps), compared to a net loss after tax of \$10.7 million (-3.05 cps) for 2021. \$6.8 million of the net loss was attributable to an impairment expense across both the Dairy and Poultry divisions. Other financial and operational highlights include:

- Sales revenue grew by 1.6% over prior comparative period (pcp) to \$70.6 million (2021: \$69.4 million). Revenue per unit of measure increased by an average 19.9% in Betta Milk, and 7.8% in Poultry.
- Gross margin of 22% (2021: 27%) was significantly impacted by covid related labour increases and increased input costs.
- Costs relating to distribution & warehousing (including associated labour) were well controlled and only increased by 3% due to pro-active management and consolidation. Repairs and maintenance increased by 34% and fuel/energy rose by 21%. This coupled with our investment in shared services to implement the findings from our strategic reviews, operating EBITDA declined to negative \$7.3 million (2021: negative \$4.7 million).
- Substantial one-off expenditure (\$1.7m) was incurred in 2022 including COVID-19 labour costs (\$0.4 million), organic poultry operating losses and closure costs (\$0.9m), strategic consulting advice (\$0.2 million) and recruitment expenses in relation to capability build initiatives (\$0.1 million).
- The result includes a gain on sale of property of \$0.66 million relating to sale and leaseback of a non-core dairy property asset.

The performance in FY 2022 coupled with subdued forward-looking industry forecasts for the categories TasFoods participates in, has resulted in the Company recognising an impairment charge of \$6.8 million, comprising brands and trademark impairment of \$2.9 million in the Poultry division and \$3.9 million in the Dairy division. The impairment charges are non-cash and do not impact the Company's cash position.

Whilst the Dairy division remained profitable and revenue was slightly up by 2.4% against the pcp, gross margins were negatively impacted by 6% and operating EBITDA was \$0.8m lower compared to pcp. Significant rises in the cost of milk (30% on pcp) was the primary driver of this result. Steps have been successfully undertaken to pass on these cost increases.

Sales revenue for the Poultry division grew by 1.9% on the pcp. The poultry division reported an EBITDA loss of ~\$1.5m for 2022 as the impact of COVID-19 related labour increases, increased feed costs (14.9% per tonne versus pcp) and increased repairs & maintenance costs impacted the result. The operation of the organic poultry business and costs related to closing the operations contributed \$0.9 million to the loss. The significant work that has been undertaken to streamline the poultry business has seen gross profit margin improve in H2 2022 with the full impact to be seen in 2023.

The horticulture segment reported sales revenue of \$0.4 million, consistent with the pcg. Gross profit margin for this division was 59%, consistent with pcg.

Shared services comprise sales, customer service, marketing, e-commerce, logistics, procurement, IT, finance, HR and corporate. Significant work has been completed to increase capability in order to implement the significant number of initiatives identified to improve TasFoods performance and implement the renewed strategy. Additional investment in shared services during the period included people and capability build and IT/ERP platforms to support future growth.

Forward Looking Initiatives

At the beginning of 2022 the company identified Top 10 Foundation Building Strategic Initiatives that would underpin the future growth of the business. With many of these initiatives either complete or well progressed the Company's senior management is now in a position to refocus on growth initiatives. The Company's recent partnership with The Juice Guys foreshadows the type of strategic opportunities TasFoods will seek to implement to leverage our existing operating platform and set us on a path to profitability. Premium opportunities in Poultry (i.e. Pet treat offerings) are also being actively pursued which will help drive both revenue growth and improve profitability.

TasFoods believes it has a strong core of brand and operating assets that can be better leveraged in existing, adjacent and new product categories. We intend to take advantage of our strong heritage whilst not limiting our ambition to what can only be achieved in the Company's home market. We believe TasFood's brand portfolio has strong relevance with domestic mainland consumers and, in time, export potential. Through intelligent NPD, brand initiatives and potential inorganic growth opportunities we will seek to realise our significant capabilities.

With the full implementation of our new Enterprise Resource Planning (ERP) system in H1 2023, the Company will have a fully integrated dairy business which will facilitate further growth opportunities and implementation of more efficiency and effectiveness measures. It will provide vital information to enhance decision making whilst also making TasFoods easier to do business with and facilitate growth.

2022 was a year to establish new foundations for the business. The Company is now in a position to capitalise on its strength in Tasmania through delivering a positive financial return, aggressively expanding our interstate and on-line offerings and being continuously aware of opportunities in adjacent categories that fit with the strategy of TasFoods premium authentic business. The Company believes that delivering on these initiatives will put TasFoods on the path to profit and sustainable returns to shareholders.

TasFoods Chief Executive Officer Scott Hadley, and Chief Financial Officer Shona Croucher will present the financial results via a webcast at 11:00am (ADST) Monday 27 February 2023. The webcast link will be live from 10:45am (ADST). The link to the webcast is as follows:

<https://webcast.openbriefing.com/tfl-ar-2023/>

A recording of the financial results webcast will be available on TasFoods website within 72 hours following the webcast.

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

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