



ASX Announcement

Freedom Foods Group Limited (ASX: FNP)

FY 2013 Financial Results

Freedom Foods Group Limited (FNP) today released the Company's preliminary final results for the full year ended 30th June 2013.

Key Highlights

- Group Operating EBDITA of \$11.6 million, a 113% increase on the previous corresponding period.
- Operating Net Profit was \$6.4 million for the 12 months ended 30th June 2013, reflecting a 92% increase on the previous corresponding 12 month period.
- Sales growth increase in Freedom Cereals of 41%, compared to the previous corresponding period, with business unit EBDITA increase reflecting sales growth and improved operating efficiencies at Leeton.
- Dairy alternative beverage sales continued their trend with sales growth of 28% compared to the previous corresponding period.
- Speciality Seafood business unit under the Brunswick Sardine brand maintained its No 1 brand leadership position in Australia and New Zealand.
- Pactum Australia contributed a strong sales result in its first full twelve month period as a consolidated entity. Pactum's expansion into portion pack UHT, for value added beverages, was completed in December 2012 and the business unit made a material contribution in FY 13. The establishment of the new Pactum Dairy Group (PDG) UHT dairy facility was progressed during the year.
- A2 Corporation (A2C) (18.04% FNP shareholding) reported continued strong growth in the Australian fresh milk business with sales up 48% per cent over the prior year. During the period, the Company sold down 40 million shares in A2C for a total net consideration of \$15.4 million, recording a pre tax profit of \$11.8m. A2C current market capitalisation implies a value for the Company's 18.04% post sale shareholding of approximately A\$72 million, materially above the book value of A\$9.9 million.
- The Company completed a successful capital raising of \$17.4 million (gross proceeds) at \$1.04 per share from a placement and entitlements offer in March 2013. The capital raising was significantly oversubscribed with strong demand from a broad range of high quality institutional investors and existing shareholders.
- Net Debt / Equity at 10% from 82% at June 2012, reflected the sell down of the A2C shareholding and exercise of options by shareholders as well as the \$17.4m capital raising during the period.
- Net assets per share at \$0.63 and net tangible assets of \$0.47 per share, with A2C investment recorded at a book value of \$9.9 million.
- The Company is to pay a final dividend for the year of \$0.01 per ordinary share (fully franked) in November 2013, equating to a total ordinary share dividend of \$0.02 for the year. A fully franked converting preference share dividend will be paid in November 2013.

Group Summary Result

The company achieved an Operating EBDITA of \$11.6 million, an increase of 113%, reflecting increased sales and profitability in the Freedom Foods business, consolidation of Pactum Australia for 12 months and a contribution from Specialty Seafood.

Operating Pre-tax Profit was \$7.5 million for the 12 months ended 30th June 2013, reflecting a 117% increase on the previous corresponding 12 month period.

The Reported Net Profit of \$13.7 million included non-operating after tax profit of \$8 million from the sale of 40 million shares in A2 Corporation, employee share option expense of \$246k (after tax), bad debts provision of \$205k (after tax) and resolution of a long term employee claim of \$140k (after tax). The Company is utilising future income tax benefits to reduce cash tax payable on the sale of the A2C shareholding.

Net Operating Profit was \$6.4 million, an increase of 92%, including an increase in operating income tax expense to \$1.8 million, against \$185k for the prior year period.

Equity Associates contributions of \$0.8 million reflected share of estimated year end profits from A2 Corporation including share of profits from FY 2012 not previously recognised.

Net assets at 30 June 2013 of \$0.63 per share from \$0.49 at June 2012, reflecting impact of sell down of the A2 shareholding, exercise of options by shareholders and capital raising undertaken in March during the period.

Summary Financials

12 months to 30 June	2013	2012 \$'000	% Change
Gross Sales Revenues (1)	115,516	72,556	+59.2%
Net Sales Revenues (1)	98,718	58,134	+69.8%
EBDITA (Operating) (2)	11,600	5,447	+113.0%
EBITA (Operating) (2)	8,972	4,075	+120.2%
Equity Associates Share of Profit	819	1,214	-32.5%
Pre Tax Profit (Operating)	7,524	3,476	+116.5%
Pre Tax Profit (Reported)	18,524	3,250	+470.0%
Net Profit (Operating)	6,351	3,305	+92.2%
Net Profit (Reported)	13,722	3,012	+355.6%
Interim Ordinary Dividend (cps)	\$0.010	-	+100%
Final Ordinary Dividend (cps)	\$0.010	\$0.010	-
Total Ordinary Dividend (cps)	\$0.020	\$0.010	+100%
Interim CRPS Dividend (cps)	\$0.014	\$0.014	-
Final CRPS Dividend (cps)	\$0.014	\$0.014	-
Total CRPS Dividend (cps)	\$0.028	\$0.028	-
EPS (cents per share)(Fully Diluted for CRPS)	11.39	3.03	+275.9%
Net Debt / Equity	10%	82%	-87.8%
Net Assets per Share	\$0.63	\$0.49	+29.6%
Net Tangible Assets per Share	\$0.47	\$0.26	+75.7%

Notes:

(1) Gross Sales Revenues does not include revenues from group associate entities, A2 Corporation. Net Sales Revenues in the table above differs from the Appendix 4E, as the above sales includes Pactum sales to Freedom Foods, which is eliminated under consolidation accounting practice, but recognised by the Group as revenue.
(2) Operating EBDITA and EBITA, excludes pre-tax abnormal or non-operating charges with an add back of non cash employee share option expense of \$352k, bad debts written off expense of \$293k and employee claim settlement expense of \$200k

Freedom Brands Business

Freedom Foods

The Freedom Foods business unit continued to build momentum from the prior financial year, delivering overall gross sales growth of 29% compared to the previous corresponding period.

During this period the business drove the Freedom branded portfolio with a focus on effective promotional price points, new product innovation and increased merchandising in major retailers and independent channels to improve distribution and stock weights.

As a result, the business sold 1 million Cereal cases, equal to volume growth of 50% and gross sales growth of 41%, compared to the previous corresponding period.

Cereal volume growth contributed to increased efficiencies at the Leeton manufacturing facility, with further benefits from management focus on improving efficiencies in labour, supply chain and distribution. The Leeton facility is the only integrated large scale manufacturing capability in Australia (and overseas) producing cereals and snacks “free from” key allergens such as gluten, nuts and dairy to the lowest detectable standards.

Freedom Foods continued its focus on leveraging its Cereal base into breakfast snack alternatives, as well as meeting demand for “nut free” snacks, with growth in volumes of 127%, albeit from a small base.

Dairy alternative beverage sales (soy, rice and almond) continued the trend from FY 12 with volume growth of 14% and sales growth of 24% compared to the previous corresponding period, reflecting increased market share of Australia’s Own Organic and Blue Diamond Almond Breeze Milk brands.

The business continued its development of export markets, with volume growth in North America reflecting Freedom’s unique point of differentiation in offering a Cereal range free of all common allergens and from non genetically modified sources. With the US gluten free market estimated at US\$3.4 billion and growing at 15% CAGR per annum, Freedom Foods is increasing its development activities in North America to grow sales of Freedom branded and contract pack supply from its Leeton facility.

The impact of sales and efficiency improvements during the period resulted in significantly increased business unit EBDITA.

The focus for the business into FY 2014, remains on increasing sales through growth in distribution channels and building awareness of the brand and products across a broader consumer market open to healthier digestive and nutritional products. The business will continue to drive category leadership of the health channel and support private label development that is complimentary to the business both in Australia and internationally.

The previously announced expansion of Freedom Foods into North America has commenced under a new wholly owned subsidiary and the relocation of a senior commercial executive, Michael Bracka to North America to lead the commercialisation activities of the North American business. Freedom’s long term target is to develop a sales base of up to 1 million cases of Freedom branded Cereals and Cereal snacks. The retail sales channel focus is on specialty or natural product retailers in key demographic regions in the USA, namely around California, Texas, Mid West, New York and Florida and into Canada.

Aligned with the increasing sales base is a strong focus on improving sales margins and operational efficiencies at the Leeton site, with the business well progressed to meeting our benchmark 15% return on funds employed in the medium term.

As part of this and meeting growth demands, the business has commenced a number of major capital programs including:

- \$3.5 million investment on downstream cereal packaging capabilities to improve efficiencies and provide for increased capacity in range and format, with new capabilities on stream from January 2014; and

- \$2.5 million investment in additional Cereal extrusion capacity to meet ongoing growth requirements in Australian and International markets in relation to Cereals and Cereal based products such as bars and ingredients, with new capabilities on stream from June 2014.

The total investment will materially increase Freedom Foods Cereal production capability, with no material net increase in cash overheads.

The business is also well progressed on plans to upgrade its nutritional snack manufacturing capabilities in calendar 2014, to improve efficiencies and meet demand for nutritious allergen free snacks in a range of consumption formats in Australia and internationally.

Specialty Seafood

The Speciality Seafood business performed below the previous corresponding period, reflecting lower sales in New Zealand and increased cost of Salmon.

Brunswick sardines maintained its No 1 brand leadership position in Australia and New Zealand.

In Salmon, Paramount increased its share in the Pink Salmon segment, although the brand suffered some SKU ranging reductions in the 2nd half.

While the business has seen the benefit of higher exchange rates on inventories purchased in \$USD and \$CAD, this was not sufficient to meet cost increases in salmon, compared to the previous corresponding period. The business continued to utilise the procurement power of Bumble Bee Foods of North America, with Bumble Bee securing inventory requirements through priority access to Salmon and Sardine catch volumes.

The business is focussed on driving category leadership of the speciality seafood channel through introducing new product opportunities (including value added and snacking offerings) and revitalised packaging for the Brunswick brand, while continuing to utilise Bumble Bee Foods procurement base.

Pactum Australia Business

Pactum Australia

Pactum Australia which provides innovative contract manufacture solutions in long life (UHT) food beverages for private label and proprietary customers, delivered a strong sales and business EBDITA contribution in its 12 months as a consolidated entity.

Pactum Australia non-dairy production volumes increased during the year to support the growth of the Freedom Foods Australia's Own and Blue Diamond brands, in particular focussed on the fast growing almond beverage category.

The business continued to see benefit at its Sydney facility of increasing its mix of value added UHT products to a range of private label and proprietary customers, while migrating out of standard dairy milk production.

As part of its growth strategy, Pactum finalised commissioning in December 2012 of an approximate \$7.5 million capital program to expand its packaging capability at its southern Sydney site to provide portion pack UHT (200-330ml configuration) for value added beverages. Initial customer production commenced in January 2013, with the new capacity operating on a 3 shift operation to meet customer demands.

Pactum Dairy Group (PDG) 50% Equity Interest

In December 2012, Pactum announced that it intended to build a state-of-the-art UHT processing plant to meet demand for high quality dairy milk in export and domestic markets.

The primary market focus of the new capacity is on supply of high quality UHT dairy milk for export markets to proprietary and private label customers in South East Asia, including China. The new facility will enable Pactum to meet growing demand for UHT dairy milk, while providing additional capacity for value added beverages and food at its Sydney facility.

The location of the new plant at Shepparton in Victoria, will provide for long term access to sustainable and economic sources of dairy milk. The initial capabilities of the plant will be 200ml portion pack and 1 Litre UHT configuration. Initial capacity will be up to 100m litres, with capability to significantly increase this capacity in the longer term.

Pactum will operate the new plant through a joint venture, Pactum Dairy Group Pty Limited (PDG), jointly owned (50/50) with Australian Consolidated Milk (ACM), a major Australian dairy milk supply group. Pactum will manage PDG on behalf of the joint venture partners, with sales to key customers undertaken as an integrated contract packaging offer. ACM will be responsible for coordinating under long term arrangements with Australian dairy farmers, the supply of high quality dairy milk.

Pactum initial investment contribution is \$4.5 million as equity funds to PDG (being 50% of total proposed equity contribution of \$9.0 Million), to be funded through internal sources. National Australia Bank is providing finance facilities to PDG.

The new UHT dairy facility at Shepparton is well progressed with trial production to commence in December 2013.

The business is well advanced in securing volumes to meet its base business plan for 2014, with a phased development over 3 years. The business recently established a dedicated sales office in China.

Packaging Capabilities Expansion

As part of its focus on providing innovation contract packaging solutions, Pactum will expand its packaging formats to meet the increasing demands from its private label and proprietary customer base. From July 2014, Pactum will expand its capabilities to include 250ml Prisma Format and 330ml Prisma Dreamcap Format.

These formats are increasingly being utilised to provide premium packaging for food and beverage products. Prisma 250ml is the leading format for premium beverages, while the Prisma Dreamcap will be the first installation of this format in the Australian market for broad contract packaging application, with its use being for premium on the go consumption formats as a more versatile and environmentally friendly alternative to plastic.

Both capabilities will be for domestic customers and dairy based export customers.

The packaging capability will be owned by Pactum Australia and operated at PDG's Shepparton facility. It is expected that certain volume from Pactum's Sydney facility will be transferred to the new capability to free up existing capacity for new customers in the Sydney facility.

The total investment for the packaging capabilities will be approximately \$15 million, with an initial earnings contribution from FY 15 and phased development over 3 years.

Exclusive Supply Agreement for a2 UHT Dairy Milk

Pactum and A2 Corporation have agreed the key terms of an agreement for the exclusive supply of a2 UHT milk for Australian and Asian markets utilising Pactum's capabilities at its Sydney and soon to be completed Shepparton facility.

The agreement will provide for an initial term of 5 years, with renewal options.

Strategic Alliance for China Dairy Milk Market

As part of its strategy to develop long term value added supply relationships into China and SE Asia, Freedom Foods and Pactum have agreed to enter into a licence and supply agreement with Shenzhen JLL Group (JLL) in China. JLL will work with Freedom to take dairy products into the China market under long standing brands.

JLL will invest in brand marketing and distribution. JLL is owned by parties associated with the development of significant consumer beverage brands in the China market.

Strategic Equity Associates

A2 Corporation Limited (A2C), 18.04% Equity Interest

The Company is the largest single shareholder in A2 Corporation (A2C). A2C owns and commercialises unique and comprehensive intellectual property rights relating to a2™ brand milk and related dairy products in international markets.

A2C reported for the FY 13 year, sales of NZD\$94.3 million, an increase of 51% over the prior year and Net Profit After Tax of NZD \$4.1 million. Operating EBITDA (before share of associate earnings and unusual items) was NZD\$10.6m, an increase of 125% over the prior year.

a2™ branded milk is the fastest growing milk brand in the Australian market and the major driver of category growth nationally, accounting for approximately 7.4% of grocery channel market share by value. Sales growth in Australia increased 48% over the previous corresponding period.

A2C launched a2™ brand milk in the UK market in October 2012 in partnership with Müller Wiseman Dairies, Britain's largest fresh milk company and by June 2013, had established distribution in five retailer groups and 1000 retail outlets.

The Company progressed its plan for the launch of a2™ Platinum™ infant formula into China with first shipment invoiced in June 13, with sales planned from November 2013. Infant formula is planned for launch in Australia from September 2013.

In December 2012, A2C completed an equity raising for NZ\$20 million, including a partial sell down by the A2C's three largest shareholders. As part of this, FNP sold 40m shares in A2C at NZ\$0.50, for a total net consideration of \$15.4 million, recording a pre tax profit of \$11.8m.

Post the Capital Raising and Sell Down, FNP remains the largest single shareholder in A2C with a fully diluted shareholding of 18.04%. A2C is listed on the main board of the New Zealand Stock Exchange (NZX: ATM), with a current market capitalisation of approximately NZ\$454 million (A\$398 million) implying a value for FNP's 18.04% investment of around A\$72 million, materially above the book value of A\$9.6 million.

The Company equity accounted \$0.8 million reflected share of estimated year end profits from A2 Corporation, and share of profits from FY 12 not previously recognised

Capital Management

The Company's Net Debt / Equity at year end was 10% from 82% as at 30 June 2012, reflecting the sell down of the A2C shareholding, exercise of options by shareholders and capital raising in March 2013.

Net cashflow from operations during the period increased to \$5.9m, reflecting improved operating performance and increased working capital. Capital expenditure of \$5.9 million comprised operating expenditures, the balance of the Pactum packaging expansion and initial commitments to expansion at Freedom's Leeton facility. The investment in PDG totalled \$4.3 million.

The Company completed a successful capital raising of \$17.4 million (gross proceeds) from a placement and entitlements offer in March 2013. The capital raising was significantly oversubscribed with strong demand from a broad range of high quality institutional investors and existing shareholders. The proceeds of the Placement and Entitlement Offer are being utilised to fund the Company's growth strategy including acceleration of capital projects within Freedom Foods and Pactum Australia, new product initiatives, acceleration and expansion of international sales activities and additional working capital requirements.

The Company had \$8.5 million of debtor finance facilities classified under accounting standards as current debt. The debtor finance facilities form part of the Company's financing facilities which are part of a rolling annual review.

The Company intends to maintain a conservative gearing with net debt to equity not to exceed 50%.

The Company completed a buy-back of all unmarketable parcels of shares in the Company in April 2013. The buyback resulted in 42,930 shares being held by 209 shareholders being bought back and cancelled by the Company for a consideration of \$40k.

The Company has on issue approximately 5.2m convertible redeemable preference shares (CRPS), which are convertible 1 for 1 into ordinary shares at election of the holder at any time. The Company has a buy back option from December 2013, which it intends to proceed with for any CRPS not converted into ordinary shares prior to this date.

Dividends

Consistent with the continued improvement in group performance, the Company will pay a final fully franked dividend for FY 13 of \$0.01 per ordinary share, in line with the interim dividend paid in April 2013. The dividend will be paid in November 2013. The record date for determining entitlements is 1 October 2013 and the payment date is 1 November 2013.

The total dividend for the year represents a dividend payout ratio of 39% of operating net profit in FY 2013.

Ordinary share dividend growth will be in line with the improving financial returns of the Company.

The Company will pay a fully franked converting preference share dividend to be paid in accordance with the terms of the converting preference shares in early November 2013. The record date for determining entitlements is 1 October 2013 and the payment date is 1 November 2013.

Outlook

The Company has continued the positive trend in the development of its unique business platforms in specialised areas of the food market, with two key growth opportunities in Freedom Foods and Pactum Australia, a stable business base in Specialty Seafood and a strategic opportunity in A2C.

Freedom Foods is expected to continue to deliver improved results from growth in existing distribution channels and international markets, aligned with increasing manufacturing efficiencies at its Leeton facility.

The expansion of packaging capabilities in Pactum will result in an increase in sales and profitability in FY 14, with further growth opportunities through meeting the increasing demands of its private label and proprietary customer base. The investment in Pactum Dairy Group provides a potential medium term opportunity to increase exposure to the growing demand for high quality and safe dairy products from South East Asia, including China.

The strategic investment in A2C provides the Company and its shareholders a potentially significant value creation opportunity through A2C's growth in Australia and international markets.

Overall the Company anticipates growth in sales, operating profitability and improving return on funds employed in FY 14.

For further information, contact:

Rory J F Macleod
Managing Director

Freedom Foods Group Limited
+612 9526 2555

Media Contacts

Rick Willis
Network Four Media
+61 411 839 344