



**THE FOOD
REVOLUTION
GROUP**

Announcement

28 February 2019

Food Revolution Group H1 FY18 Results Commentary

The Food Revolution Group Limited (ASX: FOD) is pleased to provide its Appendix 4D for the period ending 31 December 2018 and a commentary on results.

Operational highlights

- FOD welcomed Dr Norman Li as its new major shareholder and Chairman. Since joining FOD, Dr Li has significantly increased the Company's financial strength and international distribution capabilities
- The Company is well funded with Dr Li committing to invest \$20.25 million in the Company over the next 12-18 months (the first tranches of \$3.5 million as part of strategic investment settled in October with the remaining \$16.75 million balance to settle shortly following shareholder approval)
- FOD signed key Chinese distribution deals:
 - Signed Chinese distribution deal with Careline Australia to invest \$20.25 million in FOD. The distribution agreement contains an initial target of \$20M per annum of additional sales within two years at current margins. Dr Li is incentivised to grow FOD's sales to A\$100M in the short-term and A\$500M within five years.
 - Distribution deal with JJ Global Fine Foods, based in Shanghai to distribute FOD's Fruit Farm Orange Juice and Apple Juice across high-end retail outlets in China. JJ Global works with high-end hotel chains in China, including the Marriot Group (300 hotels in China), Accor (160+ hotels in China), Peninsula, Mandarin Oriental, Hyatt, Shangri La and all major supermarkets, China Resource Vanguard, RT-Mart, China Walmart, Lianhua and Carrefour
 - MOU signed with China Petroleum & Chemical Corporation ("Sinopec"), the world's largest oil, refining, gas and petrochemical conglomerate which will see Sinopec sell FOD's Australian canola oil products across its network of more than 35,000 petrol and convenience outlets in China.
- First purchase orders received and shipped to China for distribution from strategic partner Careline and JJ Global for FOD's Fruit Farm Orange Juice and Apple Juice. Following strong interest in FOD's products in China, FOD anticipates sales volume will increase considerably as product awareness builds.
- Sales of kombucha continues strong growth in Australia – FOD's brand The Bucha Shop is now one of the largest independent kombucha products in the domestic market.
- FOD commenced an upgrade of its Mill Park processing facility. The upgrade allows for improved financial metrics, increased volume and product diversification to satisfy high demand from Chinese customers. A state-of-the-art new dry room facility which allows FOD



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to produce high-end, high-margin functional gels and powder sachets to sell into China has been commissioned and will be up and running in the new financial year.

Financial Commentary

Branded sales grew by 1% year-on-year, buoyed by growing volumes of newly-launched products, counteracting the impact of the restructure of the Company's Juice Lab contracts with a major customer which will be relaunched in the second half providing an uplift in sales moving forward.

FOD achieved half-year net sales revenue of AU\$15.1 million. The revenue number was impacted by lower co-pack volumes for other brands not owned by FOD, as well as lower logistics and service fees. FOD will mitigate this going forward as it is in discussions with co-pack clients about taking over new product development and innovation increasing volumes and margin. Additionally, sales into China have just commenced and FOD anticipates sales revenue will increase considerably towards the end of 2H FY19 as the Company executes on its China growth strategy.

The earnings before interest, tax, depreciation and amortisation (EBITDA) number for the period was materially impacted by the Company cleaning up its balance sheet and making a one-off provision for doubtful debts of \$2.1 million primarily relating to the sale of processing technology as well as one-off costs associated with the Careline transaction. FOD expects a resolution to receiving some of the outstanding amount, however, has written off the balance to be conservative. The Company mitigated these increased costs through measures including lowering employment costs by restructuring casual staff and refining its targeting marketing spend on branded products.

The Company has cleaned up its balance sheet, has strong funding support from its major shareholder, is expecting a strong pick up in sales in the second half as well as into FY2020.

Outlook

The combination of FOD's developing sales traction with customers in its domestic and international markets, significant scope to expand capacity at its state-of-the-art beverage plant and solid funding position underpin the Company's positive growth outlook in 2019.

The Company anticipates delivering a material uplift in net sales in H2 FY19 through newly-signed domestic branded product distribution deals, with newly-won business with major supermarkets Woolworths, Coles, Aldi, Metcash and the relaunch of Juice Lab v2 (size, bottle, label) commencing in Q3 FY19. FOD is also implementing a new route trade strategy and is positioned well given its cold fill technology allows for a longer shelf life.

FOD continues to receive strong interest from the broader diageo community and will be hosting 100 key diageo's at the Mill Park plant in April 2019.

The Company also expects existing Chinese juice sales to ramp up and to formalise the MOU with Sinopec in the near term with its first sales of Canola Oil. Additionally, the Company anticipates further significant distribution deals to be inked in the second half which has the potential to significantly increase sales in FY2020.



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Revenue Breakdown

	Half Year Ended 31 Dec 18	Half Year Ended 31 Dec 17	Comment
Branded sales	\$7,041,494	\$6,947,199	New products launched have driven sales. Uplift expected in H2 FY19 through newly-signed domestic branded product distribution deals, with newly-won business with major supermarkets Woolworths, Coles, Aldi, Metcash and the relaunch of Juice Lab v2 and China.
Co-packing/ Ingredient	\$7,302,628	\$8,900,349	Ingredients sales increased but was offset by lower co-pack volumes. FOD co-pack clients about taking over new product development and Innovation increasing volumes and margin
Logistics and Services	\$708,901	\$1,264,265	Logistics and Services provided have decreased due to less bulk storage requirements of co-pack clients – expect this to be steady around \$700,000 going forward.
Total	\$15,053,023	\$17,111,813	



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Financial Summary

	Half Year Ended 31 Dec 18	Half Year Ended 31 Dec 17	Comment
Net Sales	\$15,053,023	\$17,111,812	Net sales lower than due to drop in co-packing sales, logistics and services fees. Branded sales 1% higher year on year despite the restruture of Juice Lab contract in one of the majors. Drop in sales will be caught up in the second half – through new domestic deals and China sales.
Gross Profit	\$4,590,169	\$6,668,040	Margin contraction primarily due to change in product ranging composition in JuiceLab. This will be rectified in the second half and the company expects a minimum 35% gross margin going foward.
Other Income	\$605,510	\$602,311	N/A
Expenses	\$7,935,667	\$6,252,178	Expenses increased due to a one-off provision for Doubtful Debts below.
EBITDA	(\$2,739,988)	\$1,018,173	
<u>ONE OFF ADJUSTMENTS:</u>			
Provision for doubtful debts	\$2,101,204	-	The relates primarily to the sale of processing tecnology in 2017. The Company expects a resolution to receviing some this amount but has written off the balance to be conservative.
EBITDA Adjusted	(\$638,784)	\$1,018,173	



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Operating Expenses Breakdown

	Half Year Ended 31 Dec 18	Half Year Ended 31 Dec 17	Comment
Employment Costs	\$2,196,155	\$2,654,396	Employment cost were down due to restructuring of casual staff to better meet manufacturing needs.
Administration Costs	\$1,144,942	\$1,064,262	Admin higher due to one off legal costs and transaction costs associated with the Careline transaction.
Marketing Costs	\$372,429	\$318,029	Marketing cost on ingredients lower, branded products marketing increased to support key customers.
Operating Costs	\$4,163,976	\$2,177,768	Operating Costs increased due to increase in doubtful debts provision for for sale of processing technology in 2017
RTO Costs	\$58,165	\$37,723	
Total	\$7,935,667	\$6,252,178	

The company is undertaking a cost review and expects to be able to reduce overall operating expenses during the second half with a reduced cost base for FY20.

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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.