

## **TasFoods AGM**

### **Managing Director and CEO Presentation**

**20 May 2021**

At TasFoods we believe that life is better accompanied by great tasting food sourced with authentic provenance. With its clean air, abundant rain, rich soil and temperate climate, Tasmania is ideally suited to creating the finest food and beverage produce. That is why we are continuing to build a portfolio of leading food and beverage brands that leverage the natural advantages of Tasmania and its reputation for fine food to deliver the essence of Tasmania to the table.

We expect that as consumers become more focused on the provenance and safety of their food that our strategy and portfolio of brands will resonate with existing and new customers.

Covid 19 made 2020 a very challenging year of operation for all companies and TasFoods was no exception. Despite Tasmania shutting its borders to interstate and overseas visitors and many of our food services customers nationally closing their doors for parts of the year, we recorded 32% growth in revenue over 2019. This growth was led by our Dairy division, including the Betta Milk brand which we acquired in August 2019.

Our Poultry division suffered supply-side shocks with a national oversupply of chicken meat into the market in Q2 2020 due to the shutdown of food service sector from COVID-19. This impacted on the full-year result with poultry division costs increasing by 16.5% in comparison to 2019. It should be noted however that this was skewed to 1H 2020.

I am pleased to report that we achieved positive operating EBITDA for each quarter other than Q2 of 2020. Q2 was the period of the year impacted the most by COVID-19 market volatility which reduced both revenue and gross margins for the quarter.

The overall gross margin of the business improved by 2% across the full year. The challenging trading period of quarter two resulted in a full year operating EBITDA of negative \$445,000 which was a \$1.3 million improvement over the full year performance of 2019.

During Q2 our management team remained focused on responding to the rapidly changing environment as customers closed their businesses, markets altered, and consumer behaviour became less predictable. Our two largest processing operations of Nichols Poultry and Betta Milk are located on Tasmania's North West Coast which went into Australia's first Covid lockdown for four weeks from mid April. We were quick to enact extensive Covid safe plans across our operating sites which remain active today.

We retained a strong focus on operational efficiencies and cost containment throughout the second half of the year. The biggest operational improvements were achieved with the consolidation of all bottling operations onto the Betta Milk site which supported a 50% increase in the volume of milk being processed at the facility during 2H 2020. This strong focus on our processes and cost centres

contributed to positive operating EBITDA for 2H 2020 of \$677,000 which was a 171% improvement on the operating EBITDA result for 2H 2019 of negative \$956,000.

As Craig has discussed, an impairment expense of \$3.5m was recognised in June 2020 with \$2.0m in Poultry and \$1.5m in Dairy. At the same time we also recognised a write down in the fair value of the Wasabi crop. Although these had no cash impact on the business, they were significant contributors to the net loss after tax of \$6.4 million.

After a challenging Q2 2020 the Board and Executive used the 2H 2020 to reset the foundations of the business in order to ensure we have a platform for future growth. The capital raisings discussed by Craig have underpinned our balance sheet and are providing the capital to drive core growth initiatives emerging from the strategic review undertaken in half two 2020. We were pleased the capital raisings were supported by existing and new substantial investors who remain committed to the long-term vision of the company.

The major movements on the balance sheet in 2020 include an increase in cash of \$5.4 million to \$7.2 million as a result of the capital raisings. We experienced a decline in the value of intangible assets of \$3 million resulting from the impairment expenses recorded in the Poultry and Dairy divisions. There was also a decline in non-current biological assets resulting from the write down of the fair value of the wasabi crop.

TasFoods is a house of brands with each brand reflecting a relevant essence of Tasmania to the target consumer. Our Core Everyday and Value brands are targeted at loyal Tasmanian consumers seeking local products that they know and trust. These represent a high volume of production and underpin our processing operations, current revenue base and distribution throughput.

Our Everyday Luxury brands are targeted at a national retail and food service market seeking a piece of Tasmanian luxury in everyday life. These brands have high growth potential through national retail distribution.

Our Super Premium brands reflect artisanal provenance and their Tasmanian heritage. These are targeted at food lovers who are actively seeking the story behind their food. Our Super Premium brands can be found in high end restaurants and premium retailers across Australia. These are also the drivers of our online sales where consumers are seeking a direct relationship with the producer.

Our omnichannel approach to markets enables us to deliver our products to where our consumers choose to shop and eat. Importantly we are able to respond flexibly and trial new methods of delivery where consumers have changed or adapted their consumption habits.

Our focus in 2021 is to grow sales for our Super Premium and Everyday Luxury brands in key interstate markets. That growth will be achieved across our channels to market with a focus on distribution through national grocery and complemented by direct-to-consumer offerings.

We have begun 2021 with a strong first quarter, achieving Operating EBITDA of \$0.139 million. This is our third consecutive quarter reporting positive EBITDA showing the ongoing improvement to operating performance.

Revenue for Q1 FY2021 remained consistent with Q1 FY2020 despite the cycling of the significant impact of Covid-19 and resulting pantry stocking behaviour of consumers which occurred in March 2020. At that time, we saw a significant uplift in sales to retail customers particularly for poultry products. The Government mandated closure of many of our food service customers occurred in the

final week of March 2020 so the impact on the loss of food service customers was not felt until Q2 2020.

Although revenue remained stable there was a decline in EBITDA compared to 2020 reflecting a return to pre Covid product mix and sales channels.

Dairy revenue growth of 4% over Q1 2020 was achieved through expanded distribution and ranging for a number of cream and milk product lines in national grocery stores. Gross margins for the dairy division improved by 2% reflecting the efficiencies gained in 2020 from consolidation into three centres of excellence and a lower farmgate milk price.

Poultry revenue declined by 1% against Q1 2020 which was significantly inflated by consumer pantry filling with retail chicken packs during March 2020. The gross margin for our Poultry division was 1% lower than Q1 2020 reflecting the return to a standard product mix away from the abnormally high proportion of retail pack sales in Q1 2020.

Our strategic focus on growing our Super Premium and Everyday Luxury brands through conversion of interstate sales opportunities has contributed to growth in interstate sales of 13% over Q1 FY2020.

Further sales growth is anticipated in Q2 through expanded ranging in interstate independent retail and food service markets being driven by broader product offerings stocked by our distribution partners. We are engaging in a winter cream promotional program through national retail partners that will support growth in retail cream sales.

We are launching two new milk products under the Betta Milk brand in June that have ranging in Tasmanian Coles and independent retail stores. This launch will be well supported by the extensive Betta Milk distribution network covering all of Tasmania and we expect the products to resonate strongly with Tasmanian consumers who know and love the brand.

We are currently in discussions with retailers and distribution partners for the Christmas cream range. We anticipate expanded ranging for existing products through the reach of our distribution partners and new products released for national retail distribution.

Poultry sales will be boosted in 2H 2021 with an expansion of the range and volume being supplied to Coles Tasmanian stores. We have seen continued growth in sales of our ready to cook chicken range and have a number of new products to incorporate into the offering in 2H 2021.

We continue to see strong growth in Online sales with Q1 2021 achieving revenue growth of 334% over Q1 2020. Whilst this growth has accelerated through shifting consumer habits as a result of Covid-19 stay-at-home orders we expect growth to only continue. To support this growing demand from online shopping we have invested in improving the online shopping experience and expanded product offering Q1 2021. We are developing relevant seasonal home entertaining solutions that provide a reflection of our own and other premium Tasmanian delicacies that will deliver the essence of Tasmania to any table.

To further improve our ability to deliver products directly to customers across Australia we have been investigating a suitable refrigerated logistics solution to deliver to the consumers door. We are currently trialling the preferred provider with an aim to move the whole of our perishable goods direct to customer business across by 2H 2021.

A refrigerated delivery service will open up the opportunity to incorporate our fresh milk and poultry products into the direct sales offering. This will be particularly valuable for our new premium poultry offering to be launched in 2H 2021 and to allow consumers to trial our products in locations where we may not already have wide ranging We intend to use the delivery service as both a revenue generator and marketing tool through further product trialling.

On Monday we announced to the market that we are developing an organic chicken farming operation that will enable us to enhance our Super Premium chicken offering with a provenance that is well understood by consumers.

The farm is being developed on leased organic land at Flowerdale and utilises growing sheds and production systems that we have been trialling at the Nichols site over the past four years. The organic birds will be processed at the Nichols site at Sassafras which will not require any modifications to the processing factory. Existing product segregation processes will support the isolation and identification of organic product throughout the plant.

We are developing a new organic brand for this product that will evoke the natural advantages for organic products sourced from a clean, green, and remote island like Tasmania. We anticipate this organic brand will have application across a range of organically sourced products and will be well supported by consumers seeking the highest quality poultry products.

Sales for the organic chicken range are anticipated to commence from September 2021 and are focused on interstate premium markets through a number of existing and new customers.

Across the business our team has worked very hard over the past 12 months to respond quickly to changing market conditions, to maintain a safe work environment for all employees, contractors, and visitors as well as to improve our operating performance.

I would like to acknowledge their hard work, their commitment to our brands and in delivering for our customers.

I would also like to thank the Board for supporting the Management Team to develop a new strategic direction for the business that we are now focused on delivering.

Thank you also to our shareholders for your support as we deliver the essence of Tasmania to tables across Australia.