freedom FOODS GROUP LIMITED
Making food better

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Company Announcements Office
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Freedom Foods Group Limited (ASX: FNP)
2021 Full-Year Financial Results Announcement

Freedom Foods Group (the 'Group') delivers a 141% positive turnaround in underlying Adjusted Operating EBITDA[1].

Underlying results on a continuing basis[2]

$ million	FY21	FY20[3]	Change	Change (%)
Net Revenue	$559.1	$516.7	$42.4	8%
Adjusted Operating EBITDA	$22.4	($54.0)	$76.4	141%
Adjusted Operating EBITDA margin	4.0%	(10.4%)	14.4bps	n.m.
Net loss after tax	($38.8)	($136.4)	$97.6	72%
Earnings per share (CPS)	(14.0)	(49.7)	35.7	72%
Cash at bank	31.7	17.2	14.5	84%

FY21 summary

- Total revenue from continuing operations of $559.1m, up 8% on FY20
- $76.4m earnings turnaround, with Adjusted Operating EBITDA from continuing operations of $22.4m, up 141% on restated FY20 loss of $54.0m
- Phase one of the 'Reset, Transform, Grow' transformation strategy substantially complete
- Cereal and Snacks operations divested in March 2021
- $265m Convertible Note and $27m Options issuance plus amended bank facilities provide a restructured capital base to execute transformation strategy
- Plant-based Beverages revenue up 16% to $152.9m, with MILKLAB sales up 49%
- Dairy and Nutritionals revenue up 7% to $394.3m, with lactoferrin sales up 215%
- Successful product launches, including MILKLAB Oat and Australia's Own Barista Oat
- Statutory net loss after tax of $38.8m, 72% improvement on restated FY20 loss of $136.4m
- Cash at bank $31.7m plus $47.9m of undrawn facilities provide sufficient liquidity for day-to-day business operations
- Dual-track review underway for Specialty Seafood – 'retain and improve' or divest

1 Adjusted for non-trading and non-recurring items (including restructuring costs, product recall costs and unrealised foreign exchange loss), pre AASB 16.
2 Excludes Cereal and Snacks operations divested 30 March 2021
3 All FY20 figures restated (See Note 3 of Financial Statements)

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Strategy and Outlook

Freedom Foods Group Limited Chief Executive Officer Michael Perich said:

"FY21 was a defining year for Freedom Foods Group, marking the start of our 'Reset, Transform, Grow' transformation into a progressive Australian and regional branded FMCG business, with a much-improved operating model and tighter controls that better respond to changes occurring in the local and international environments. As we enter the new financial year, we can declare the financial, structural, operational and cultural reset of the Company substantially complete, with the Company now having the right platform and talent to return it to long-term, sustainable and profitable growth.

"Actions to transform the Company are well underway, with the Group benefitting from the hard work and commitment of our employees. The continued focus by the team on the customer, quality and innovation has continued to deliver very pleasing results. The significant $76.4 million turnaround in our Adjusted Operating EBITDA performance year-on-year – as well as the sales growth we are seeing in our key brands and markets here and overseas – point to the potential of these actions to continue delivering better returns for the Company and its investors.

"While there is more work to do, and we do not expect to see the full benefits of the improvements we are making flow through until FY23, the transformation strategy provides the springboard to continue to grow the business by capitalising on the ever-increasing consumer demand for healthier lifestyle options. Notwithstanding the uncertain impact of the latest COVID-19 lockdowns and related supply chain disruptions, we are confident of continuing the positive momentum delivered in the past year into FY22 as we pursue our transformation strategy."

Operating and Financial Summary[4]

Revenue from continuing operations, which excludes the divested Cereal and Snacks business, rose 8 per cent to $559.1 million, with solid sales growth across both the Plant-based Beverages and Dairy and Nutritionals divisions.

The Group has experienced growth in key channels, with sales through e-commerce channels up 38 per cent and export sales up 31 per cent. Overseas sales now represent 24 per cent of group revenue, up from 20 per cent in FY20, with a particularly strong performance in China and Southeast Asian markets.

Adjusted Operating EBITDA from continuing operations[5] of $22.4 million represents a significant $76.4 million, or 141 per cent, turnaround from an EBITDA loss of $54.0 million in FY20. This reflects improved operational efficiencies across the business and ongoing discipline around product development, marketing and distribution. Adjusted Operating EBITDA excludes one-off restructuring costs of $27.9 million.

The Group reported a statutory net loss (continuing operations) after tax for FY21 of $38.8 million, a substantial improvement on a loss of $136.4 million in FY20. The FY21 accounts include a number of one-off, non-recurring items related to financing, the recapitalisation and other costs relating to the reset of the Group.

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[4] All FY20 figures restated for IFRC accounting changes, reclassification of certain expenses and continuing business

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

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Including Cereal and Snacks for the nine months to 31 March 2021, consolidated revenue was $594.4 million, up 2 per cent, with adjusted EBITDA pre AASB 16 of $8.2 million, compared with a loss of $88.8 million in FY20 and loss after income tax of $53.2m compared to $175.7m in FY20.

Balance Sheet and Cash Flow

Cashflow from operations was negative for the full year at $5.5 million. Net cash used in operating activities for FY21 was negative $52.8 million, an improvement of $45.9 million from FY20. However, removing legacy creditors paid during the period relating to FY20, as well as restructuring and higher interest expenses and costs associated with the senior debt and the standstill agreement, cashflow from operations would have otherwise been positive.

The transformation of the Group is underpinned by the successful completion of its recapitalisation in May 2021. The recapitalisation involved the issue of $265 million in secured Convertible Notes to existing and new investors, including the Group's majority shareholder Arrovest. To enable existing shareholders who could not participate in the Convertible Notes to share in the Group's turnaround journey, ASX-listed Options were made available to shareholders (other than Arrovest), of which $27 million were taken up.

Total indebtedness increased by $57.6 million in FY21, with total gross debt of $349.9 million and cash at bank of $31.7 million, resulting in net debt of $318.2 million (pre AASB 16 lease liabilities). The majority of this debt is represented by the Convertible Notes. It is anticipated that the Notes will convert into equity in coming years, at which point the leverage will decrease.

The Group has $47.9 million of available working capital facilities to provide sufficient liquidity to fund the business on a day-to-day basis. The available working capital facilities cannot be drawn to settle litigation.

Segment Operational Performance[6]

Segment	Revenue			Adjusted Operating EBITDA[7] [8]		
$ million	FY21	FY20	% change	FY21	FY20	% change
Plant-based Beverages	$152.9	$132.3	16%	$25.7	$8.7	194%
Dairy and Nutritionals	$394.3	$369.3	7%	($4.1)	($56.7)	93%
Specialty Seafood	$11.8	$15.0	(22%)	($0.2)	($0.3)	38%

Plant-based Beverages revenue increased 16 per cent to $152.9 million as the segment continues to benefit from rising consumer demand for healthier lifestyle options. Adjusted Operating EDITDA in this segment rose 194 per cent to $25.7 million, with profitability continuing to improve as a result of the transformation program being implemented.

Plant-based beverage sales continue to accelerate, with the Group investing in the size of its Australian and New Zealand food service team to strengthen its direct relationships with distributors. Sales of MILKLAB rose 49 per cent overall. In June 2021, the Group successfully launched MILKLAB Oat,

[6] All FY20 figures restated for IFRC accounting changes, reclassification of certain expenses and continuing business
[7] Segment results are post allocation of group shared services overhead except for realised FX and Board/ASX-related costs
[8] Adjusted for non-trading and non-recurring items (including restructuring costs, product recall costs and unrealised foreign exchange loss), pre AASB 16

complementing the launch of Australia's Own Barista Oat milk and immediately capturing a meaningful share of the fastest growing plant-based milk category.

Dairy and Nutritionals revenue rose 7 per cent to $394.3 million, with strong export growth offsetting a flat domestic performance. FY21 Adjusted Operating EBITDA loss of $4.1 million for the year was a substantial 93 per cent improvement on the loss of $56.7 million in FY20.

The Dairy and Nutritionals business is the focus of the Group's operational turnaround strategy to reduce wastage, improve production efficiencies, remove or reduce unprofitable products, optimise milk supply and curtail losses from the sale of surplus milk as experienced in previous periods. The initial focus has been on reducing milk wastage, increasing line efficiencies and reducing complexity, which has resulted in progress on key metrics of productivity and material wastage.

Sales of the Group's PUREnFERRIN lactoferrin products rose 215 per cent in FY21 on the back of increasing customer numbers and expansion into the European and North America markets.

Overall sales of Consumer Nutritionals – including Vital Strength, UPROTEIN and Crankt Protein – rose 5 per cent in the year, despite a temporary fall in demand caused by the closure of gyms and specialty stores during COVID-19 lockdowns. The Consumer Nutritionals range, which includes several new products launched through the year, continues to benefit from strong demand for protein sports nutrition products.

Specialty Seafood revenue fell 22 per cent to $11.8 million as COVID-19 disrupted global supply chains, causing stock shortages and resulting in the need to cancel promotions. Adjusted Operating EBITDA remained close to breakeven. Freedom Foods Group and its advisers have commenced a dual-track review of the Specialty Seafood business under which the business will either be "retained and improved" or divested.

The Group continues to closely monitor the impact of the latest COVID-19 lockdowns. In particular, the lockdowns have had a significant impact on the Victorian local government area of Shepparton, where the Group's facilities are located and where up to one third of population has been quarantined, reducing the available labour force.

The Group has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for the Group's workforce and securing the supply of materials essential to our production process. To date, the impacts on the Group and its performance have not been significant, with no positive among employees or their families.

During the lockdowns in FY21, sales reductions in out-of-home and export channels were partly offset by increases in others, such as pantry-stocking via the grocery channel. Supply chain logistics were impacted, with longer lead times and increased freight costs.

The Group's highest priority remains the health and safety of its team members, who have demonstrated enormous professionalism and commitment during the uncertainty created by ongoing COVID-related conditions.

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Dividend

The Directors declared that no dividend was payable and it is unlikely a dividend will be paid until the Convertible Notes convert into equity.

Corporate Name Change

The sale of Cereal and Snacks, which included the Freedom Foods brand name itself, necessitates a change of the Group's corporate identity. At the 2021 Annual General Meeting, shareholders will be asked to vote on a new corporate name. The name, which will be revealed in coming weeks, represents a clean break with the past and the emergence of a reset and refreshed organisation with significant opportunities ahead of it as a leading Australian beverage and nutritionals company.

Trading Update

- The Group remains focused on delivering on the transformation program and returning the Dairy and Nutritionals business to profitable EBITDA in FY22.
- There remains ongoing uncertainty regarding COVID-19 conditions globally, which may lead to further supply chain disruptions, varied sales across geographies due to lockdown impacts and decreased margins due to channel mix.

Investor Conference Call Details

Chief Executive Officer Michael Perich and Chief Financial Officer Josée Lemoine will host a teleconference and webcast at 11:00am (AEST), with a Q&A session to follow the presentation.

To access the teleconference and/or webcast, please use the links below:

Conference Call Registration and dial-in details:
http://apac.directeventreg.com/registration/event/7369004

Webcast Link:
http://www.openbriefing.com/OB/4414.aspx

About Freedom Foods Group Ltd

Freedom Foods Group (ASX: FNP) is a leading Australian FMCG company with a mission to create quality, on-trend, responsibly produced dairy and plant-based beverages, nutritional products and ingredients used across the health and fitness industries. The Group operates state-of-the-art manufacturing facilities in Victoria and NSW and produces key brands including the MILKLAB range of shelf stable dairy and plant-based milks, Australia's Own, So Natural, Crankt, Vital Strength and PUREnFERRIN lactoferrin.

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