



Halo Food Co.

31 October 2022

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ASX Release Quarterly Report

For the quarter ending 30 September 2022

HALO CONTINUES TO FOCUS ON CORE PRIORITIES AND IMPROVE FINANCIAL TRAJECTORY THROUGH Q2 FY23

31 October 2022

Halo Food Co. Limited (ASX:HLF) ("Halo" or the "Company") is pleased to provide the following quarterly update on its activities and lodge the Appendix 4C Cash Flow Statement for the second quarter of the 2023 financial year ending 31 March 2023 ("Q2 FY23").

Upon releasing the quarterly results, Halo's newly appointed CEO, Jourdan Thompson, stated "This is an exciting time at Halo and I have been overwhelmed by the level of support from the team internally, our clients and our shareholders as I have stepped into the CEO role following the end of the second quarter. We have a great team actioning change across the group, championing our brands and our clients."

"The momentum generated in the first quarter has continued into the second and the recognition of our brands is growing as the national distribution footprint broadens while our third-party client orders are growing simultaneously."

"Healthy Mummy is being successfully integrated into Halo and necessary changes are being actioned to realise long term growth. New senior marketing appointments to drive digital growth and sales have been made, digital and physical product rationalisation undertaken and promising retail ranging discussions are at an advanced stage."

"There is a large opportunity in front of Halo and I look forward to working closely with Halo's team, Halo's clients and Halo's brands as we scale a vertically integrated health and wellness player for success and for our shareholders."

Q2 FY23 Key Financial Highlights

- Substantial reduction in net cash outflow from operations to \$733k for Q2 FY23. Representing a reduction of \$4.0m through the quarter compared with the prior quarter outflows of \$4.7m;
- Cash receipts from customers for the quarter totalled \$22.3m, representing an increase of \$2.7m from Q1 FY23;
- Notwithstanding the 14% increase in cash receipts from customers over the prior quarter, customer receipts from Halo remain lower than forecast due to overdue accounts of a number of debtors in both Australia and New Zealand. While Halo maintains a strong focus and discipline on debtor collections, a number of clients are falling outside of terms, albeit paying in full in due course. In the interim, these



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accounts are on stop supply until the accounts return to agreed terms;

- The overdue accounts due for collection by the end of Q2 FY23 totalled \$3.0m. Subsequent to quarter end and through the course of October, \$2.4m of the outstanding amount has been collected, however, is not recorded in the accompanying Appendix 4C for the quarter ended 30 September 2022;
- Should the full outstanding balance of debtors been collected on terms and by 30 September, Halo would have generated cash from operations of \$2.3m for Q2 FY23;
- Advertising and marketing costs for the quarter were \$931k, easing slightly on the prior quarter. Marketing costs are expected to remain at these levels as THM continues to attract new digital subscribers to the platform and Tonik marketing spend increases in line with substantial new distribution and brand awareness nationally in market;
- Q2 FY23 sales for the consolidated group totalled \$20.7m and were principally in line with the Q1 sales result of \$20.9m; and
- Q2 FY23 sales were comprised of \$13.3m in Australian contract manufacturing, \$3.2m in New Zealand contract manufacturing, \$3.4m of The Healthy Mummy and \$0.8m of Brands.

As at 30 September 2022, Halo had a combined cash balance of \$4.0m per the attached Appendix 4C.

Q2 FY23 Operational Highlights

1. The Healthy Mummy (THM)

Q2 FY23 was a busy quarter for THM as it continues to successfully migrate into the Halo business and further THM SKUs now transitioned across to Halo's manufacturing facilities in Melbourne. Halo and THM senior management have been working closely together on a number of fronts across the business including:

- THM product rationalisation and sales mix for digital subscription products and physical smoothie, supplement and skin products;
- Termination of non-recurring digital subscription products, for example, Platinum (lifetime) product, with a clear focus on monthly and annual digital subscriptions via the THM app only moving forward;
- THM new product development for future retail ranging and for existing B2C e-commerce channels;
- Retail ranging development for a broad range of THM products into major grocery and mass market retailers – THM have participated in a number of range reviews for material retail ranging with certain discussions at an advanced stage – national retail ranging forms a core part of the growth



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strategy for THM, building brand awareness, product sales and filling the digital subscription funnel with new leads and customers;

- Successful roll-out of the new theme on the THM website and shop, including new layouts and new product images. This is part of a larger strategic initiative around search engine optimisation (SEO) ultimately driving further traffic to the THM website;
- Increased public relations and media initiatives across multiple channels, resulting in several Studio 10 appearances for THM with more television and print media opportunities secured for the current quarter;
- Rationalisation of marketing spend and online Meta ads (Facebook and Instagram), working with leading marketing agencies to ultimately drive conversion while reducing customer acquisition cost; and
- Material operating expenditure reduction of c.15% through the back end of the quarter.

In September 2022 and after an extensive search process, THM appointed a new Head of Marketing to the business. This is a key role for THM and will bring refreshed thinking, new strategic ideas and strong digital disciplines from which to continue the success of THM while focussing on a clear and concise offering. Additional marketing appointments and promotions will be made in due course as THM broaden and diversify the depth of experience in digital marketing to secure long term business growth. Since the appointment and via re-engagement and consultation with key marketing agencies, key metrics have significantly improved in a short period of time including return on ad spend (ROAS) and conversion rates. SEO is now a core strategic initiative within the marketing and web teams of THM to increase awareness and the volume of traffic, increase the size of customer funnel and ultimately improve consideration and conversion.

Following the end of the quarter, THM has launched Halo's Tonik High Protein bars through its direct-to-consumer e-commerce channels as part of the core strategic objective to cross sell Halo proprietary products across owned platforms. The initial sales have been strong and further marketing and promotional campaigns around the Tonik programs will be carried out as Tonik builds a profile on the THM platform.

2. Brands Division

Building on the momentum of Q1 FY23, including ranging in 7-Eleven (Australia's largest petrol & convenience banner group) the branded division has successfully secured an additional 2,100+ retail sites through Q2 FY23. These sites are owned and operated across 7 retailers and distributors with confirmed ranging of Tonik products, both High Protein Shakes and High Protein Bars, to be launched through Q3 FY23. These distributors, retailers and customers are across independent grocery and petrol and convenience and include:



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- New Sunrise Group;
- Metro Petroleum;
- Chevron Australia (Puma);
- EG Petroleum;
- Jasbe Group; and
- Further select IGA independants

As part of the Tonik rebrand carried out in Q1 FY23, the Tonik website has been redesigned and re-launched through Q2 FY23, with fresh product images, new layouts and new blogs. The website provides a clean landing page for potential retailers and customers and has been designed to maximise SEO as the Tonik brand continues to scale and gain momentum.



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THE TONIK DIFFERENCE



TONIK MICRO COLD-FILTRATION & PLANT PROTEIN BLENDS

- Tastes Fresher
- Smoother Texture
- Retains Nutrients
- 20g Protein
- Australian Made

New Tonik Nutrition Website images

3. Contract Manufacturing

Contract manufacturing continued building on the momentum of Q1 FY23 and recorded sales of \$16.6m across Australia and New Zealand for Q2 FY23.

The sales pipeline for contract manufacturing is robust and a number of potential material contracts are at an advanced stage of discussion in Australia and New Zealand. The sales teams continue to focus on nurturing both existing customers and converting sales leads into clients as well as increasingly supporting the manufacturing needs of THM and the Brands division.

The New Zealand Dairy business has seen an upturn in demand from international clients, particularly China based clients, with the softening of the spot milk powder prices. Theland orders have increased in size and frequency over the quarter as the lower milk powder price has sparked demand to restock, sales to Theland for 1H FY23 totalled c.\$2.4m, falling well short of expectations and attributed to all time high milk powder prices. As a direct result of the softer input price for milk powder, Halo has received confirmed orders for \$2.1m in October and November with an additional \$1.4m expected to be placed, not yet confirmed, for December 2022 / January 2023.



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Other

Payments to executive and non-executive directors totalled approximately \$367,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 30 September 2022, 46,511,628 Performance Shares are on issue, per the table below.

	Performance Shares on issue at start of period or issued through the period (A)	Performance Shares converted to KTD shares during the period (B)	Performance Shares expired during the period (C)	Performance Shares on issue at the end of the period (A) – (B) – (C)
Class E ¹	23,255,814	0	0	23,255,814
Class F ²	23,255,814	0	0	23,255,814
Total	46,511,628	0	0	46,511,628

The release of this announcement was authorised by the Board of Directors of Halo.

* * * * *

Further Information

Jourdan Thompson
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1 Each Class E Performance Share will convert into one share upon the Company achieving a volume weighted average price of its shares over a period of 30 consecutive trading days upon which the shares are traded that exceeds \$0.65 and, in relation to the Omniblend Group, \$50,000,000 of annual revenue, in any financial year occurring on or before 31 March 2023

2 Each Class F Performance Share will convert into one share upon the Company achieving a volume weighted average price of its Shares over a period of 30 consecutive trading days upon which the Shares are traded exceeding \$1.00 and, in relation to the Omniblend Group, \$100,000,000 of annual revenue and \$7,500,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2023



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About Halo Food Co. Limited

Based in Sydney and Melbourne, Australia and Christchurch, New Zealand, Halo Food Co. Limited is an established manufacturer and exporter of formulated dairy products and health and wellness products. Halo Food Co. is a leading Australian and New Zealand product developer and manufacturer in the health and wellness sector, with dry powder, ready to drink UHT and protein bar health and wellness-based product capability. In addition to Halo Food Co.'s own brands, including The Healthy Mummy and Tonik, the company is a trusted production partner, contract packing for well-known brands in Australia, New Zealand and internationally. The Company's purpose-built production facilities in Australia and New Zealand offer a wide range of dairy, health and wellness and nutritional packing solutions, meeting the diverse needs of consumers from different markets and cultures. Please visit www.halofoodco.com for further information.

ENDS



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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Halo Food Co Limited

ABN

49 621 970 652

Quarter ended ("current quarter")

30 September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	22,345	42,007
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(17,683)	(35,589)
(c) advertising and marketing	(931)	(1,894)
(d) leased assets	(137)	(265)
(e) staff costs	(3,118)	(5,876)
(f) administration and corporate costs	(881)	(3,182)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	33	52
1.5 Interest and other costs of finance paid	(381)	(729)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	20	20
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(733)	(5,456)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses**	-	(10,320)
(c) property, plant and equipment	(25)	(52)
(d) investments	-	-
(e) intellectual property	(23)	(23)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(48)	(10,395)

**** Payments to acquire businesses is shown net of existing cash in the acquired entity.**

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(349)
3.5	Proceeds from borrowings	2,087	17,924
3.6	Repayment of borrowings	(1,747)	(5,984)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	(577)
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	340	11,014

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,471	8,927
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(733)	(5,456)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(48)	(10,395)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	340	11,014
4.5	Effect of movement in exchange rates on cash held	(13)	(73)
4.6	Cash and cash equivalents at end of period	4,017	4,017

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,017	4,471
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,017	4,471

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

367

-

Note to Item 6.1: The amount of \$367k was payment of Director remuneration for the quarter ended 30 September 2022.

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	17,196	16,080
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	17,196	16,080

7.5 **Unused financing facilities available at quarter end** 1,116

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The financing facilities outlined above are as follows:

- Trade Finance facility within the New Zealand Dairy business provided by ANZ Bank for a total of NZD\$3,500,000
- Overdraft of NZD\$1,000,000 provided by ANZ Bank
- The interest rate for the trade finance facility in New Zealand is 2.29% on funds drawn.
- Arrowpoint Finance Facility for a total of \$13,000,000 in the parent company at a drawn rate of 9.75% per annum and an expiry date of 31 May 2025.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(733)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	4,017
8.3 Unused finance facilities available at quarter end (Item 7.5)	1,116
8.4 Total available funding (Item 8.2 + Item 8.3)	5,133
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	7
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 October 2022

Authorised by: Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.