



## ASX Announcement

### Freedom Foods Group Limited (ASX: FNP)

#### Half Year FY 2013 Financial Results

Freedom Foods Group Limited (FNP) has today released the Company's preliminary half year results for the 6 months ending 31<sup>st</sup> December 2012.

#### Key Highlights

- Group Operating EBDITA of \$4.1million, an 84% increase on the previous corresponding period.
- Operating Pre-tax Profit was \$1.8 million for the 6 months ended 31 December 2012 reflecting a 19% increase on the previous corresponding 12 month period.
- Sales growth in Freedom Cereals of 29%, 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 36% 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, with the Paramount brand increasing share in the Pink Salmon segment.
- Pactum Australia contributed a strong sales and business contribution in its first full six month period as a consolidated entity.
- A2 Corporation (A2C) (18.07% FNP shareholding) reported continued strong growth in the Australian fresh milk business with market share by value in grocery increasing to 6.9%. 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 18.07% post sale shareholding of approximately A\$48 million, materially above the book value of A\$9.6 million.
- Net Debt / Equity at 28% from 82% at June 2012, reflecting the sell down of the A2 shareholding and exercise of options by shareholders during the period.
- Net assets per share at \$0.55 and net tangible assets of \$0.36 per share, with A2C investment recorded at book value of \$9.6 million.
- The Company is to pay an interim dividend for the half year of \$0.01 per ordinary share paid (fully franked) in May 2013. A fully franked converting preference share dividend to be paid in April 2013.

## Group Summary Result

The company achieved an Operating EBDITA of \$4.1 million, an increase of 84%, reflecting consolidation of Pactum Australia for 6 months, improving sales and profitability in the Freedom Foods business, and a contribution from Specialty Seafood.

Operating Pre-tax Profit was \$1.8 million for the 6 months ended 31<sup>st</sup> December 2012, reflecting a 19% increase on the previous corresponding 12 month period.

The Reported Net Profit of \$10.0 million included non-operating after tax profit of \$7.9 million from the sale of 40 million shares in A2 Corporation. The Company will utilise future income tax benefits to reduce cash tax payable on the sale of the A2C shareholding.

Net Operating Profit was \$2.1 million, an increase of 29%, including increase in operating income tax expense compared to an income tax benefit in prior period.

Equity Associates contributions of \$0.5 million reflected share of estimated year end profits from A2 Corporation including share of profits from FY 2012 not previously recognised.

Net assets at 31 December 2012 of \$0.55 per share from \$0.49 at June 2012, reflecting impact of sell down of the A2 shareholding and the exercise of options by shareholders during the period.

## Summary Financials

6 months to 31 December	2012	2011	% Change
	\$'000	\$'000	
Gross Sales Revenues (1)	55,050	30,830	+78.6%
Net Sales Revenues	46,780	24,125	+93.9%
EBDITA (Operating) (2)	4,132	2,248	+83.8%
EBITA (Operating) (2)	2,847	1,702	+67.3%
Equity Associates Share of Profit	513	674	-23.9%
Pre Tax Profit (Operating)	1,828	1,538	+18.9%
Pre Tax Profit (Reported)	13,671	1,538	+788.9%
Net Profit (Operating)	2,118	1,644	+28.8%
Net Profit (Reported)	10,080	1,644	+513.1%
Interim Ordinary Dividend (cps)	\$0.010	Nil	
Interim CRPS Dividend (cps)	\$0.0135	\$0.014	
EPS (cents per share)( Fully Diluted for CRPS)	10.5	1.7	+521.4%
Net Debt / Equity	28%	41%	-31.7%
Net Assets per Share	55.3	52.5	+5.3%
Net Tangible Assets per Share	36.4	30.3	+20.0%

*Notes:*

(1) Gross Sales Revenues excludes Royalty income received from Yakult and does not include revenues from group associate entities, a2 Dairy Products, A2 Corporation.

(2) Operating EBDITA and EBITA, excludes abnormal or non-operating charges with an add back of non cash employee share option expense of \$172k.

## **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 27% compared to the previous corresponding period.

The business invested during the period in driving the Freedom branded portfolio through 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 recorded volume growth in its core Cereals category of 39% and gross sales growth of 29%, 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 scale manufacturing capability in Australia and overseas for cereals and snacks "free from" key allergens such as gluten, nuts and dairy to the lowest detectable standards globally.

Freedom 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 126%, albeit from a small base.

Dairy alternative beverage sales (soy, rice and almond) continued the trend from FY 2012 with volume growth of 19% and sales growth of 36% 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 is increasing its development activities in North America to grow sales of Freedom branded and contract pack supply from the Leeton facility.

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

The focus for the business remains on increasing sales through growth in distribution channels and increased awareness of the brand and products across a broader consumer market. The business will continue to drive category leadership of the health channel and support private label development that is complimentary to this both in Australia and internationally.

Aligned with the increasing sales base is a strong focus on improving sales margins and operational efficiencies at the Leeton site with the business progressing to meeting our benchmark 15% return on funds employed in the medium term. As part of this, the business will invest in upgrading its downstream cereal packaging capabilities in 2013 to improve efficiencies and provide for increased capacity in range and format.

### **Specialty Seafood**

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

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

In Salmon, Paramount as the No 2 proprietary brand in the category, increased its share in the Pink Salmon segment ahead of John West and Own Brand labels.

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) under the Brunswick brand, utilising the Bumble Bee Foods procurement base.

## **Pactum Australia Business**

### **Pactum Australia**

Pactum Australia which provides contract manufacture of long life (UHT) beverages for private label and proprietary customers delivered a strong sales and business EBDITA contribution in its initial 6 months as a consolidated entity.

Pactum Australia production volumes increased during the year to support the growth of the Freedom dairy alternative beverage range under the Australia's Own and Blue Diamond brands. The business continued to focus on increasing its mix of value added UHT products to a range of private label and proprietary customers.

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 business moving to a 3 shift operation to meet customer demands.

The expansion now positions Pactum as the only independent low cost contract manufacturer of a broad range of UHT products on the east coast of Australia, with capability to meet the increasing demands from its private label and proprietary customer base.

### **Pactum Dairy Group (PDG) 50% Equity Interest**

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

The primary market focus of the new capacity will be 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 a site in South Eastern Australia will provide for long term access to sustainable and economic sources of dairy milk. The initial capabilities of the plant will be 250ml 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.

The UHT dairy facility is expected to commence commercial operations by December 2013.

Pactum will operate the new plant through a joint venture, Pactum Dairy Group Pty Limited (PDG), to be owned jointly (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, supply of high quality dairy milk.

Pactum expects to commit up to \$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. NAB will provide finance facilities to PDG, subject to pre drawdown conditions.

## **Strategic Equity Associates**

### **A2 Corporation Limited (A2C), 18.07% 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.

a2™ brand milk is the fastest growing milk brand in the Australian market and the major driver of category growth nationally, accounting for in excess of 6.9% of grocery channel market share by value. Sales growth in Australia was +57% over the previous corresponding period.

A2C launched a2™ brand milk in the UK market in October in partnership with Müller Wiseman Dairies, Britain's largest fresh milk company. A2C has progressed plans to launch an a2™ infant formula product from May 2013 into the Chinese market, in conjunction with a strong local marketing and distribution partner, China State Farm.

In December, A2C completed an equity raising for NZ\$20 million, including a partial sell down by the Company's three largest shareholders. As part of this, the Company 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 18.07%. A2C is listed on the main board of the New Zealand Stock Exchange (NZX: ATM), with a current market capitalisation of approximately NZ\$323 million (A\$260 million) implying a value for FNP's 18.07% investment of around A\$48 million, materially above the book value of A\$9.6 million.

The Company equity accounted \$0.5 million reflected share of estimated year end profits from A2 Corporation, and share of profits from FY 2012 not previously recognised

### **Capital Management**

The Company's Net Debt / Equity at year end was 28% from 82% as at 30 June 2012, reflecting the sell down of the A2C shareholding and exercise of options by shareholders during the period.

Net cashflow from operations during the period increased to \$3.4m, compared to the previous corresponding period, reflecting the acquisition of Pactum Australia and improved working capital efficiency. Capital expenditure of \$3.1 million primarily related to the balance of the Pactum packaging capacity expansion.

The Company had \$10.5 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%.

### **Dividends**

Consistent with the continued improvement in group business units' performance, the Company will pay an interim fully franked dividend of \$0.01 per ordinary share. The record date for determining entitlements is 17 May 2013 and the payment date is 31 May 2013.

Subject to ongoing performance, the Company expects to pay a further \$0.01 final dividend. Dividend growth in future years will be aligned to funding the Company's growth strategy and improving financial returns.

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 April 2013.

### **Unmarketable Parcels Buyback**

The Company has announced today that it will institute a buy-back of all the shares held by shareholders who hold unmarketable parcels of shares in the Company. This currently applies to 224 holders holding unmarketable parcels of shares totalling 46,185 shares.

## **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 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 the 2<sup>nd</sup> half of FY13, 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 the 2<sup>nd</sup> half, compared to the 1<sup>st</sup> half period.

### **For further information, contact:**

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