29th August 2019

Freedom Foods Group Limited (ASX: FNP)
2019 Full Year Financial Results Release

Financial Highlights

- Net Sales increased 34.9% to $476.2 million, an increase of $123.2 million
- Operating EBDITA rose 40.9% to $55.2 million, an increase of $16.0 million
- EBDITA margins increased to 11.6% from 11.1% a year earlier
- Operating net profit rose 40.1% to $21.9 million. Statutory net profit fell 9.0% to $11.6 million, after abnormals and non-cash expenses
- Final dividend of 3.25 cents per share (unfranked).

Strategic Highlights

- The Freedom Foods Group (Group or the Company) continues to achieve high growth through key brands including Australia's Own and Freedom Foods in retail and MilkLab in out of home channels, in the key markets of Australia, SE Asia and China:
  - Net Sales from Group Brands increased to 48.5% ($230.9 million) of total sales from 45.0% ($158.9 million) in FY 2018.
  - Growth achieved in key branded categories and channels, with Australian retail grocery growth of 42%, significantly above category average growth rates (1.6%). The Company is currently the fastest growing retail branded grocery supplier.
  - Ongoing success with new brands introduced late in FY 2018 in the retail grocery channel, including Australia's Own into the UHT dairy category +149.3% ($37.3m) and Heritage Mill +362.3% ($12.6m) in the mainstream cereal and snacks category.
  - Continued growth of Messy Monkeys +126.6% in the healthy snacks retail channel.
  - Strong sales growth of MilkLab +168.7% in the out of home beverage channel. Total plant beverage product range overall in strong growth.
  - Growth in Vital Strength and Crankt nutrition brands, building penetration into pharmacy and convenience channels.
  - Successful launch of 130+ new product formats into retail, grocery, out of home and export markets, supported by increased marketing expenditure as investment for future growth.
  - Strong growth in export markets, with China sales revenues +37.3% ($67.4m).
  - Exceptional growth in SE Asia sales revenues +178.8% ($21.4m) following establishment of a local team. This and growth in China was achieved despite supply constraints relating to the UHT capacity expansion.
- The Group is one of Australia's leading investors in state-of-the-art food and beverage manufacturing capability, investing more than $170 million in plant and equipment in the full year period:
  - At Shepparton, Victoria, the Group is on track for completion in September 2019 of an upgrade to double total UHT dairy processing capacity to 500 million litres per annum.
  - Completion of stage one of a transformational Nutritionals capability, with construction of stage two capacity upgrade underway in Q4. The site has commenced manufacturing Nutritional Ingredients consisting of Lactoferrin (LF), Micellar Casein (MCC) and Whey Protein Isolate (WPI).
  - The Group entered into a long-term supply agreement for Lactoferrin with a major global pharmaceutical company that will utilise a significant component of current and planned capacity for Lactoferrin at the Company's Nutritional ingredients facility in Shepparton.
- The full year sales and earnings results did not fully benefit from the key capital expenditure initiatives undertaken since March 2018. The Group expects these capital expenditure initiatives, along with increasing demand, to increase sales and earnings into FY 2020 and beyond.
- The Group continues to advocate with retail customers and government for higher retail pricing for all dairy products (including fresh and UHT) in Australia to provide for a sustainable supply future.

Outlook

Rory Macleod, Managing Director and Chief Executive Officer, commented:

"The Group is increasingly well positioned to build into a major global food and beverage business with scale in key food and beverage platforms."

"The Group continues to experience strong demand across its business activities in Australia, China and SE Asia. This growing demand in dairy, plant based beverage and cereal and snacks reflects the positive impacts on our expanded operational footprint and increasing brand penetration and market share in key strategic channels and categories in Australia, SE Asia and China."

With the completion of stage one of a transformational Nutritionals capability, the Group will continue to evolve its scaled dairy capabilities into high value added protein based ingredients and consumer applications.

New product revenue streams from major capital expenditure projects including the Nutritionals capability are expected to materially positively impact sales and earnings into FY 2020 and beyond.

Financial Summary

The Group delivered an improved financial performance with higher sales revenue and earnings. Further investment in innovation, brand and market development assisted in growth in key business divisions and markets.

The Group recorded Net Sales Revenue of $476.2 million, an increase of 34.9% on the previous corresponding period.

Operating EBDITA rose 40.9% to $55.2 million.

The result reflected increased sales and earnings contributions from Dairy Beverage, Nutritionals and Plant Beverage business units, offset by reductions in Cereals & Snacks and Specialty Seafood.

The Group achieved an operating net profit after tax of $21.9 million, a gain of 40.1%, reflecting increased operating EBDITA, offset by higher depreciation costs as compared to the previous corresponding period.

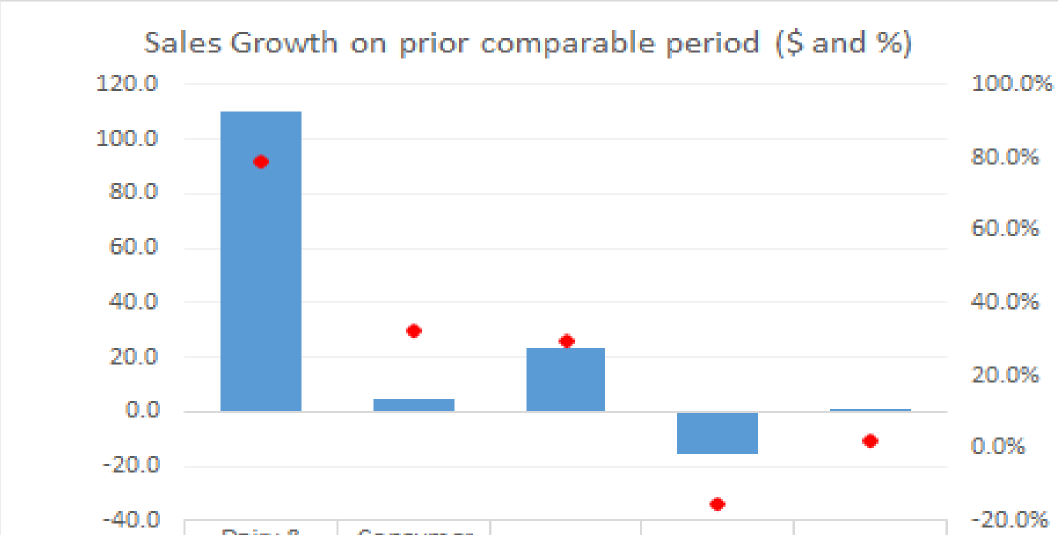
Statutory net profit after tax decreased 9.0% to $11.6 million. This included one-off non-operating costs of $5.4 million relating to pre-acquisition costs ($1.3 million), unrealised foreign exchange losses ($1.8 million) and the write down of inventory and discontinued product formats ($2.3 million) due to changes in the Shepparton and Leeton operational footprints and the decision to exit a number of major contract manufacturing arrangements for key brand and private label customers in cereals and milling related activities.

The statutory income tax expense reflects an effective tax rate of 39.5%. The higher than normal tax rate is due to the recognition of a deferred tax liability (DTL) on the market value of the indefinite life intangibles acquired in the Crankt acquisition of $1.8m. The Group expects the future tax rate to be broadly in line with the Australian corporate tax rate.

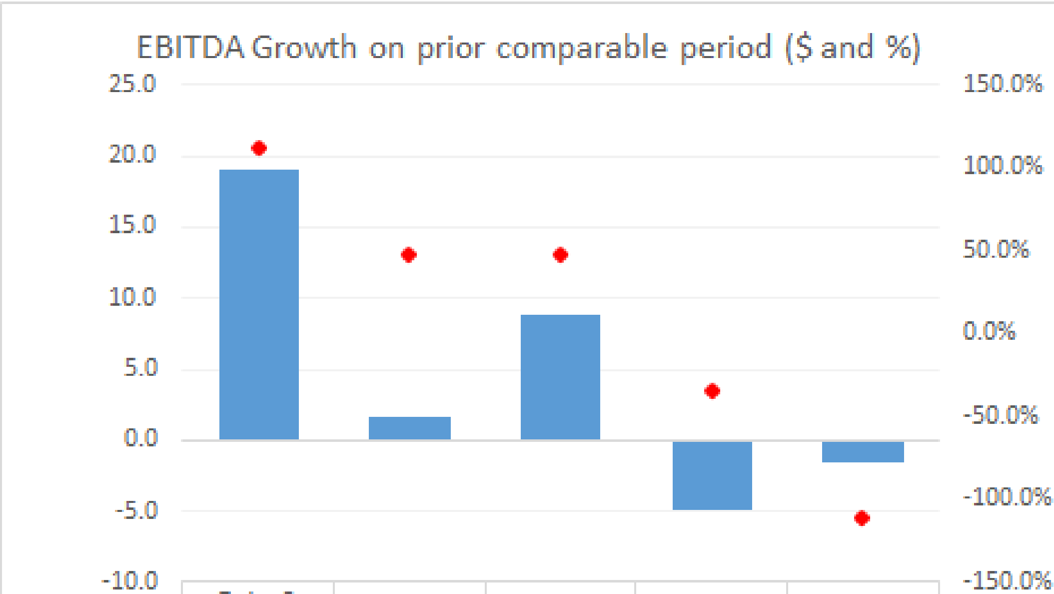
A summary of the key business unit financial performance is outlined below:

- Dairy operations at Shepparton achieved significant sales growth, reflecting increasing demand in Australia, China and SE Asia. Total earnings contribution improved through increased sales and factory utilisation during the period. The new integrated dairy nutritionals operation made a minor start up contribution to sales and earnings in the segment.
- Consumer Nutritionals contribution also reflected increased sales of Vital Strength powder based branded products and Crankt branded beverage and bar formats.
- Plant based beverage operations delivered increased sales, reflecting growth in retail and out of home brands, with operating earnings contribution materially ahead of the prior year period.
- The Cereal and Snacks operations delivered increased sales in key branded products in cereals and snacks. Overall sales and earnings contribution were below the prior comparable period, reflecting the impact of:
    - a decision to exit a number of major contract manufacturing arrangements for key brand and private label customers in cereals and milling related activities. A number of these contract manufacturing arrangements in cereals and milling were below the Group's margin criteria and utilised manufacturing capacity that can be better deployed for growth in the Group's brands in key channels and markets. In the short term there have been negative capacity utilisation implications, however, it is anticipated that capacity will be re-absorbed via increased cereals and bar production through FY 2020.
    - The Group increased investment in significant trade spend activities associated with the Messy Monkeys and Heritage Mill brands. The brand continues to experience strong sales growth in supermarkets and is expanding through popcorn and extruded snacks variants.
- Specialty Seafood sales were broadly in line with the previous corresponding period. The earnings contribution was materially impacted by an unfavourable cost of goods reflecting exchange rate ($AUD depreciation) and increased cost of $USD denominated Salmon finished goods reflecting a poor seasonal catch. Since June 2019, the business has secured price increases that offset the impact of the adverse cost and exchange rate impacts.
- With increasing focus on building the Group's brands, the Group substantially increased investments in brand building and marketing as well as in retail and other channel trade activities.
- Group Services costs increased, primarily reflecting a significant investment in sales capability in Australia (retail, out of home), SE Asia and China, quality and finance capability necessary to manage the growth of the Group.

Sales and EBDITA Growth



	Dairy & Nutritional Ingredients	Consumer Nutritionals	Plant Based Beverages	Cereal & Snacks	Specialty Seafood
$ Change	110.0	4.6	23.8	-15.6	0.3
% Change	79.0%	32.3%	29.3%	-15.1%	2.3%



	Dairy & Nutritional Ingredients	Consumer Nutritionals	Plant Based Beverages	Cereal & Snacks	Specialty Seafood
$ Change	19.0	1.7	8.9	-4.9	-1.6
% Change	112.6%	47.1%	47.5%	-34.7%	-111.1%

Underlying vs. Statutory EBDITA

Set out below is a reconciliation of statutory EBDITA to underlying Operating EBDITA.

12 Months to 30th June (A$ million)	2019	2018	$ Change	% Change
Underlying Operating EBDITA (1)	**55.2**	**39.2**	**+16.0**	**+40.8%**
Gain on sale of Ingleburn	**-**	**3.3**	**-3.3**	
Other costs not representing underlying performance (2)	**(6.6)**	**(9.7)**	**+3.1**	
Employee Share Option Expense (non cash) (3)	**(5.8)**	**(1.3)**	**-4.5**	
Statutory EBDITA	**42.8**	**31.5**	**+11.3**	**+35.8%**

Note:
1. *Operating EBDITA (Earnings before depreciation, interest, tax and amortisation) is a non-IFRS measure as contemplated in ASIC Regulatory Guide 230 Disclosing non-IFRS financial information (RG230). Operating EBDITA is used by management and the directors as the primary measures of assessing the financial performance of the Group and individual segments. Operating EBDITA excludes the non-operating charges and gains including an add back of the non-cash employee share option expense of $5.7 million (2018: $1.3 million). Operating net profit is operating EBDITA less depreciation, amortisation, interest and normalised income tax expense at 27.5%.*
2. *FY 2019 other costs not representing underlying operating performance includes one off non-operating costs of $5.4 million relating to pre-acquisition costs ($1.3 million), unrealised foreign exchange losses ($1.8m) and the write down of inventory and discontinued product formats ($2.3 million). Other costs of $1.2 million representing bank facility financing fees are classified as finance interest costs.*
3. *Non cash employee share option expense of $5.8 million* in FY 2019.

Sales and Underlying EBDITA (1st vs 2nd half FY 2019)

1st Half vs 2nd Half FY 2019 (A$ million)	H1 2019	H2 2019	Full Year 2019
Net Sales Revenue	**209.0**	**267.2**	**476.2**
Operating EBITDA (1)	**21.0**	**34.2**	**55.2**

Segment Financials

12 Months to 30th June 2019 (A$ million)	Dairy & Nutritional Ingredients	Plant Based Beverages	Cereal & Snacks	Consumer Nutritionals	Specialty Seafood	Other	Total
Net Sales Revenue	**249.3**	**104.9**	**87.7**	**19.0**	**15.2**		**476.2**
Trading EBDITA	**35.9**	**27.6**	**9.2**	**5.3**	**(0.2)**		**77.8**
Equity Associates (1)						**0.5**	**0.5**
Shared Services Costs (2)						**(23.1)**	**(23.1)**
Operating EBDITA	**35.9**	**27.6**	**9.2**	**5.3**	**(0.2)**	**(22.6)**	**55.2**
Net Sales Change (YOY %)	**+79.0%**	**+29.3%**	**-15.1%**	**+32.3%**	**+2.3%**		**+34.9%**
Net Sales Change (YOY $m)	**110.0**	**23.8**	**(15.6)**	**4.6**	**0.3**		**123.2**

Note:
1. *Equity Associates is share of NPAT of Australian Fresh Milk Holding (10% equity interest held by Freedom Foods Group).*
2. *Shared Services costs includes sales and group services, it excludes non-cash employee share option expenses of $5.8 million.*

Key Financials

12 Months to 30th June 2019	2019	2018	% Change
Net Sales Revenue	476.2	353.0	+34.9%
EBDITA (Underlying Operating) (1)	55.2	39.2	+40.9%
EBDITA (Statutory)	42.8	31.5	+36.0%
Equity Associates Share of Profit (2)	0.5	0.5	-
Pre Tax Profit (Operating)	30.3	21.6	+40.1%
Pre Tax Profit (Reported)	19.0	14.6	+30.3%
Income Tax (Operating)	8.3	5.9	+40.1%
Net Profit (Operating)	21.9	15.7	+40.1%
Net Profit (Reported)	11.6	12.7	-9.0%
Final Ordinary Dividend (cps)	3.25	2.75	+18.2%
Final CRPS Dividend (cps)	1.35	1.35	-
EPS (cents per share) (Fully Diluted for CRPS)	6.90	6.33	+9.0%
EPS Operating (cents per share) (Fully Diluted)	10.10	9.25	+9.2%
Shareholder Equity	670.9	529.9	
Net Debt / Equity	18.2%	6.8%	
Net Assets per Share (cents)	245.8	217.2	+13.2%
Net Tangible Assets per Share (cents)	192.4	171.6	+12.1%

Notes:

1. *FY 2019 other costs not representing underlying operating performance includes one off non-operating costs of $5.4 million relating to pre-acquisition costs ($1.3 million), unrealised foreign exchange losses ($1.8m) and the write down of inventory and discontinued product formats ($2.3 million). Other costs of $1.2 million representing bank facility financing fees are classified as finance interest costs.*
2. *Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group).*

Dairy and Nutritional Ingredients Business Group

Dairy Beverages

Branded Portfolio

Dairy based branded beverage sales continued the upward sales and profit trend from FY 2018, reflecting increased sales of the Australia's Own brand and other brands in domestic out of home and export markets.

Australia's Own Dairy Range

Taking the Best of Australia to consumers across Australia, SEA and China

As part of its strategy to build the Australia's Own brand as a leading beverage brand in Australia and key export markets, the Group launched late in FY 2018 a range of Australia's Own UHT dairy milk products. The expanded portfolio now includes full fat, A2 protein, lite, skim milk and lactose free products in 1 litre and 2 litre formats.

In the Australian domestic retail market, the brand has performed well, and achieved a 19.8% share of branded UHT milk within twelve months of launch. The Australia's Own Dairy products are also being expanded into key sales channels in SE Asia. We see a great opportunity to build Australia's Own across the Asian markets with demand continuing to increase.

Australia's Own Kids Milk

Largest imported kid's milk brand in China

The "Australia's Own" branded "Kid's Milk" product continued to grow sales and distribution during the period, with the product remaining the largest imported kid's milk brand in China.

The brand continues to be supported with marketing investment including point of sale promotion, sampling and sponsorship of leading China (CCTV) national children's TV programmes. The brand is well established in key cities and provinces in China.

During the period, the Group supported the growth of the brand, with increased output in current 200ml packaging format and a new 200ml leaf packaging format for exclusive use in e-commerce channels. An A2 protein milk variant was also launched in December 2018.

Australia's Own Dairy Company China (trading as JLL)

The Group subscribed in May 2018 for an initial 10% investment in AO China for a consideration of RMB22 million (AUD $4.7 million). It retains an option to subscribe for up to an additional 20% of AO China within three years from the date of the initial subscription.

The AO China business has continued to grow strongly since its inception, with sales in FY 2019 in the order of RMB 247 million (AUD $51 million). The business has invested significantly in sales and marketing and is expected to break-even during calendar 2019.

China and South East Asia

Largest Australasian supplier of UHT Dairy to China and SE Asia

Sitting alongside our brand expansion, Freedom Foods is the largest Australasian supplier of contract dairy milk to the Chinese and SE Asia markets. We have a range of long standing as well as new relationships with key brand owners and retailers across all jurisdictions.

Shepparton UHT Operations

Largest supplier of contract packed milk brands to China and private label milk in Australia

In Australia, the Group supplies a number of long-term retail customers that provide a strong base of underlying volume and earnings support. The Group continues to supply a number of key relationship customers in China including major dairy manufacturers and brand owners. In SE Asia, the Group has developed customer relationships in markets such as Singapore, Malaysia, the Philippines and Vietnam.

During the FY 2019, volume throughput at Shepparton increased as additional retail, other contract customers and Group branded product supply commenced. Additional volumes will commence during FY 2020, reflecting demand in Australia, SE Asia and China and increased capacity.

Total dairy milk volume processed in FY 2019 was in excess of 230 million litres compared to 140 million litres in the previous corresponding period and 80 million litres in FY 2017. The Group estimates dairy milk volume processed in FY 2020 to be upwards of 350 million litres. Sales of dairy based components including cream will also increase.

New Capacity

Largest investor in UHT dairy technology and capacity in Australia

During FY 2019, the Group progressed a significant part of the capacity upgrade to its Shepparton dairy facility. The upgrade of its dairy processing capabilities at Shepparton will increase total dairy milk processing capacity to 500 million litres per annum.

This doubling of processing capacity aligns and supports growth in UHT filling capability at Shepparton to meet demand in domestic and export markets including SE Asia and China. Importantly, the expanded processing capability will provide increased flexibility to meet increasing demand for other value-added products streams including drinking yoghurt and cream.

The Group expects the total 500 million litres of processing capability to be fully on stream from September 2019, providing for the expected volume in FY 2020. The ability to process increased dairy milk flows and separate various dairy components will provide important component streams for the Group’s specialised Nutritionals platform.

Dairy Supply – Australian Fresh Milk Holdings (AFMH)

Australia’s largest single site dairy milking operation

AFMH operates Moxey Farms, a fully integrated dairy farming operation located in the Lachlan Valley, New South Wales, 340 km west of Sydney.

AFMH is currently completing an expansion project at Moxey Farms that began two years ago, allowing carrying capacity to increase from 3,500 to 7,000 milking cows. Milk production has increased from 50 million to 85 million litres and, following completion of the last stage of this project, is expected to increase to 100 million litres per annum.

In January 2019, AFMH completed the acquisition of the Coomboona Dairy operation in northern Victoria. The Coomboona Dairy operation expands AFMH’s production platform in a renowned dairy farming region. With the acquisition of the Coomboona Dairy operation, AFMH is now the largest dairy producer in Australia with current operations forecast to produce more than 150 million litres in 2020.

AFMH is a strategic partnership owned by the Moxey and Perich families and other shareholders including Freedom Foods Group. FNP has a 10% equity shareholding in AFMH.

Freedom Foods is utilising a growing proportion of the dairy milk output from the Coomboona Dairy site for its Australia’s Own Kid’s Milk and other dairy product formats.

The total investment in AFMH at 30th June 2019 was $18.7 million.

Direct Dairy Milk Supply and Outlook

During the period, the Group expanded its "Freedom Farmers" sourcing strategy, establishing direct supply contracts with dairy farmers in Victoria and southern New South Wales that produce consistent high-quality dairy milk.

As at 30th June 2019, the Group had more than 55 direct suppliers supplying in excess of 300 million litres per annum. With the existing long term contracted supply of 100 million litres from Australian Consolidated Milk (ACM), total supply in FY 2020 is approximately 400 million litres per annum. The direct supply strategy seeks to align a multi-year volume, quality and pricing relationship that supports the growth demands of the Group and provides our farmer partners with certainty and a stable revenue basis to invest in their farms. The Group intends to expand this direct supply strategy in key Victorian supply regions to provide for growing milk demand.

The Group is establishing a number of these direct supply farms relationships as A2 protein milk designated suppliers, providing A2 protein milk volume for increasing demand in Australia and export markets, including value added capabilities in cream, yoghurt and nutritional products.

During the 2019 financial year, difficult weather conditions and high water and grain based feed pricing saw reductions in the total Australian dairy milk supply. The farm gate cost of milk has increased as a result, with the majority of processors increasing farm gate prices into 2nd half of FY 2019.

The Group has established supply relationships based on multi-year contracts at prices broadly in line with current FY 2020 prices being offered by other processors. Increases in milk price arrangements with new suppliers commencing in 2nd half FY 2019 and with ACM for FY 2020 are consistent with the Group's outlook confirmed in May 2019. The Group expects increased export pricing and higher prices for dairy components including cream to provide a material offset to these price changes.

The Group continues to advocate with retail customers and government for higher retail pricing for all dairy products (including fresh and UHT) in Australia to provide for a sustainable supply future.

Ultimately, Freedom Farmers will benefit from long term supply relationships that align their income to building key components processed in our dairy and nutritionals capabilities.

Nutritional Ingredients

The Group is leveraging its significant and growing dairy capabilities to build a branded high margin product portfolio in specialty nutritional products.

As part of this, the Group completed the first stage of a specialised nutritionals platform aligned to the dairy UHT operations at Shepparton. The platform provides for protein standardisation and the ability to manufacture high grade protein components for use in our branded products and for sale to strategic customers.

During January 2019, the Group received all regulatory approvals to commence commercial operations at its new Nutritionals capability at Shepparton. This represented a significant achievement, with construction of this complex technology capability only commencing in February 2018.

With commissioning works ongoing through December and January, the site commenced in February 2019 manufacturing of liquid Micellar Casein. Following MCC production, the Group will progress with Native Whey Protein Isolate and Lactoferrin being available for sale from early in 1st quarter FY 2020.

Global Supply Agreement - Lactoferrin

In June 2019, the Group entered into a long-term supply agreement for Lactoferrin with a major global pharmaceutical company. The supply agreement will utilise a significant component of current and planned capacity for Lactoferrin.

The strong customer demand for the broad range of protein streams, as well as the new agreement for long term supply of Lactoferrin further validates the capacity upgrades. The Group recently passed all audit requirements providing for supply to commence in the 1st half of FY 2020.

The Group is progressing commercialising a number of these key ingredients into applications under its own brands, including in Sports Performance, Diet and Adult Nutrition as well as consumer applications for Lactoferrin.

The Nutritionals capability is expected to deliver a material earnings contribution in FY 2020. The ability to add value to our existing nutrition brands and expand further across the nutritional products spectrum is a key part of the Group's strategy.

Consumer Nutritionals

Performance Nutrition Brands

Vital Strength is the leading brand in Chemist Warehouse

The Vital Strength brand is recognised as a leader in high quality nutrition products, sold through retail grocery, pharmacy and fitness retailers in Australia.

The Vital Strength business activities provide the Group with a strong base to expand its brand and category segment offering into the performance and adult nutrition market in Australia, China and SE Asia, leveraging existing retail customer and distribution capabilities. Importantly, it provides a unique vertical integration to the Group's dairy nutritional capabilities.

During the period, the Vital Strength brand increased sales and profit contribution from key customers and channels.

Crankt Protein Brand

Fastest growing brand in Petrol and Convenience

In February 2018, the Group commenced distribution of the Crankt Protein brand, offering a range of mainstream nutrition products, including beverages and snack bars. The Crankt Protein range is sold through petrol and convenience, fitness retailers and retail grocery in Australia and New Zealand.

The Crankt brand targets everyday consumers and is aligned to the Vital Strength brand which is positioned as a premium brand in the sports and nutrition category.

The Crankt brand performed well in the period, with growing sales in both retail supermarket and petrol and convenience chains. The range was expanded with innovation in protein snacking and 1 litre beverage formats.

The Group acquired the Crankt brand in August 2018, following an initial period under a distribution agreement. The acquisition consideration was a gross value of $3.6 million. After deductions for working capital loans and other offsets, the net cash consideration payable was $2.4 million. The gross purchase value of $3.6 million equates to a price to gross sales multiple of 0.73x on FY 2019 sales.

Plant Based Business Group

Branded Portfolio

Strong growth in Australia's Own, MilkLab and Blue Diamond brands in Plant based beverages

Plant based branded beverage sales continued to grow, with both volume and sales revenue growth compared to the previous corresponding period, reflecting strong growth in the Australia's Own and MilkLab range and also the licenced Blue Diamond Almond Breeze brand in retail and out of home channels.

The trend towards plant based food and beverages is increasing in Australia and global markets, driven by a desire for healthier and "cleaner" lifestyles which is motivating consumers to focus on fruits, vegetables, nuts, seeds, grains and other botanicals.

In retail grocery, the Group remains the largest supplier of almond beverages, including products under the Australia's Own brand, our licensed Blue Diamond Almond Breeze brands and private label offers. As a leading innovator in plant based beverages, during the second half of FY 2018, the Group successfully launched the first pea protein milk in Australia, "Like Milk", recently winning the AFR most Innovative New Product award.

The Group continued to experience strong growth in the high margin out of home channel with both MilkLab and Almond Breeze Barista having established a clear market leadership in the almond segment of the milk for coffee market.

Increased channel penetration and consumer demand is expected to continue to drive growth, with the Group expanding the range of nut-based beverage products under the MilkLab brand. The Group will also launch 2 litre formats.

During the period, the Group invested in sales and distribution to develop new channels in SE Asia and the Middle East, with increasing sales of the Australia's Own range and MilkLab.

The MilkLab brand is experiencing strong demand across existing markets in Australia and new markets in SE Asia and the Middle East and has the potential to be a leading global plant based beverage brand in the milk for coffee markets.

UHT facility at Ingleburn, South West Sydney

The state-of-the-art UHT facility at Ingleburn in South West Sydney has performed well since initial start-up and commissioning in December 2017.

The Ingleburn facility has been established with the capability to process both non-dairy and dairy products. During the period, the Ingleburn site processed dairy formats to provide additional dairy packaging capability ahead of upgrades at the Shepparton facility.

Capabilities for yoghurt processing were completed during the year. Initial product formats for domestic and export markets in SE Asia will be launched early in FY 2020. While China's demand for yoghurt is strong, sales are subject to receiving Chinese government accreditation at some stage in the future.

Cereal and Snacks Business Group

Australia

Number 1 health food cereal brand and growing

The Freedom Foods business is the category leader in the cereal and snacks segment found in the health food sections of retail supermarkets. Freedom Foods branded products delivered sales growth in its branded Cereal and Snacks segments compared to the prior year period.

The Messy Monkeys brand continued an impressive growth trajectory, supported by strong trade and external marketing activity. The brand is the No 1 selling "new" brand in the health food section of supermarkets and has expanded its core range with popcorn and extruded snacks variants.

The Freedom Foods Arnold's Farm brand performed well in its oat based cereal products through its exclusive distribution in Woolworths supermarkets. The Arnold's Farm range was expanded late in 2nd half of FY 2019 with new cereal and snack formats launched.

In June 2018, the Group launched an expanded range of Freedom Foods branded cereals and snacks in the mainstream retail channels in Coles Supermarkets under the brands Heritage Mill and Brekky Heroes. Since introduction, the products have performed well, and above Group expectations. The Heritage Mill brand has already achieved a 28.5% share of the breakfast cluster and muesli category in Coles Supermarkets. The range was expanded during the 2nd half of FY 2019, with new cereal and snack formats.

Exit from Contract Manufacture Arrangements

The Group made a strategic decision during the 1st half of FY 2019 to exit a large a number of major contract manufacturing arrangements for key brand and private label customers in cereals and milling related activities.

A number of these contract manufacturing arrangements were below the Group's margin criteria and utilised manufacturing capacity that can be better deployed for growth in the Group's brands including Heritage Mill and Arnold's Farm in key channels and markets.

For competitive reasons, the Group brought forward the full exit of these arrangements from January 2019. The impact of this decision was a reduction in sales and contribution for the Cereal and Snacks Business for FY 2019 as compared to FY 2018.

The Group is confident that the growth and opportunities provided by a focus on its own brand strategy will provide for increased financial returns in the medium to long term. Strong demand in the Heritage Mill and Arnold's Farm brands and increased demand in China and SE Asia provides a strong foundation for success.

China and South East Asia

Fastest growing Australian cereal brand on Alibaba's Tmall

Within the online cereal category, sales have progressed well, with further growth achieved and increasing brand recognition in this small but growing category in China.

The Freedom Foods Arnold's Farm brand remains one of the top three oat cereals on Tmall International. In offline distribution, the Arnold's Farm brand is now sold in more than 4,000 outlets across China.

Offline Distribution – Strategic Partnership with Theland

In November 2018, the Group advised that it had entered into an arrangement to establish a strategic partnership with Theland New Cloud Digimart Co (Theland) for the development of the Arnold's Farm range of cereals and snacks in China.

Majority owned by Alibaba Group, Theland is a China-based brand owner and distributor with extensive sales capabilities across both online and offline channels in more than 25 provinces in China. Under the arrangements, Theland is a key distributor for Arnold's Farm branded cereal and snacking products in the China market including online and offline channels, further leveraging the integration between online and the "new retail" strategy being developed by Alibaba.

The strategic partnership arrangements for Arnold's Farm commenced in March 2019. The Group has also commenced supply of an A2 protein milk product in UHT format to Theland, under its own brand. Freedom Foods and Theland expect to build on this initial UHT milk product launch with additional products and formats to be launched later in calendar 2019.

Freedom Farmers

The Group has sufficient supply of key grain raw materials for FY 2020, utilising its Freedom farmers and other key grain partners. Increases in oat prices for FY 2020 are in line with expectations with increased export pricing and higher retail pricing providing material offsets to these price changes.

The Group continues to monitor any potential impact on supply beyond FY 2020 from current dry growing conditions in NSW.

Specialty Seafoods

Number 1 sardine brand in Australasia and growing salmon sales

Brunswick Sardines maintained its No. 1 brand leadership position in Australia and New Zealand. The Paramount Salmon brand performed well, with the re-ranging of the Paramount Salmon brand in Coles Supermarkets from later in the 1st half.

While Specialty Seafood sales were broadly in line with the previous comparable period, the earnings contribution was materially impacted by unfavourable cost of goods reflecting exchange rate ($AUD depreciation) and increased cost of $USD denominated salmon finished goods reflecting a poor seasonal catch. Since June, the business has secured price increases that offset the impact of the adverse cost and exchange rate impacts.

Innovation Capabilities

The Group continues to be a leading innovator in its chosen product and channel segments and sees its innovation approach as a key competitive advantage.

As part of this, the Group continues to invest significantly in its innovation capabilities across its business groups. This investment, aligned to its significant capital investment in manufacturing capabilities, provides a strong base to accelerate new product development pipelines. In the last five years, the Group has invested in excess of $55 million in product development.

A total of 130+ new products were launched from July 2018 into retail grocery, out of home and export markets, supported by increased marketing expenditure as investment for future growth.

Sales from new product development initiatives since 2017 contributed $134.0 million in FY 2019.

The Group has been recognised for its product development innovation, including the Healthy Food Awards and, in August this year, the AFR Boss Innovators Award.

Capital Expenditure

The Group is one of Australia's leading investors in state-of-the-art food and beverage manufacturing capability, investing more than $170 million in plant and equipment during FY 2019, which included bringing forward additional investment planned for FY 2020.

The FY 2019 year reflects a peak in the five year investment cycle with capital expenditure expected to materially reduce in FY 2020.

The key programs implemented included:

- At Shepparton, the Group completed a significant proportion of an upgrade to increase total processing capacity to 500 million litres per annum from current processing capacity of 250 million litres. The capacity increase was aligned with investment in additional filler and packaging capabilities.
- Completion of stage one of a transformational Nutritionals capability, with construction of stage two capacity upgrade commencing in Q4.
- Completion of yoghurt processing capabilities during the half year. Initial product formats for domestic and export markets in SE Asia will be launched in 1st half FY of 2020.
- Investment in additional filler and packaging capabilities at Ingleburn and automated packaging processes for snacking capabilities at Leeton.
- Investment in a number of key sustainability projects, including a solar and battery project at our Shepparton site which is the largest on roof solar panel system in Victoria, with carbon offset in excess of 5,000 tonnes of CO_2 or equivalent to 1,700 trees being planted. The other major projects include a chemicals reuse capability.

The capital expenditure program provides a strong operational platform to significantly increase the Group's sales and operating financial returns. Ongoing operational capital expenditure through FY 2020 will relate to increases in stage 2 capacity upgrade for Nutritionals.

Corporate and Group Management

Talent and Technology

The Group has an extremely talented and passionate team of employees focussed on delivering the "Freedom way", which incorporates a passion for growth, agility, challenging the norm and taking personal ownership of business outcomes.

Aligned with this, the Company continued to make investments in people and capability to ensure the Group can implement and manage growth. During the period, we invested in talent and capability in sales and innovation across beverage, cereal and snacks capability as well as operations, finance and quality.

We are developing our people and talent identification processes to align with the Group's rapidly expanding sales and operational platform. During the period, the Group further progressed the transformation of its IT / ERP systems. Further investments in technology will be made to ensure we increase efficiency and productivity.

Greater China Management Team

During the 1st half of FY 2019, the Group recruited a new senior leadership team for its Greater China business reflecting the increasing scale and sophistication of the business and the need for strong business management and administration capabilities. Jason Zhang assumed the role of CEO Greater China and Roy Hu, General Manager Sales. Both have strong experience and skills sets in FMCG including working across Western and local companies in the China market.

Capital Management

Liquidity and Finance Facilities

The Group held cash of $55.4 million at 30th June 2019, with total borrowings of $177.4 million, comprising term facilities, equipment finance leases and working capital facilities. Net debt at 30th June 2019 was $122.0 million, with a net debt to equity ratio of 18.2%.

Cash generated from operations included a significant improvement in working capital during the 2nd half as compared to 1st half. With the winding down of the significant capital expenditure period, the Group is working to improve inventory holdings including packaging and raw materials.

During the period, the Group invested $171 million in capital expenditure relating to the balance of construction and equipment payments, commissioning and related costs for the capital expenditure on plant and equipment at Shepparton, Ingleburn and Leeton, technology platform development, and deposits for capital expenditure relating to expanded capital projects committed to in the 1st half of FY 2020.

In May 2019, the Group completed a $131 million equity raising to be used to accelerate Freedom Food's growth strategy, including acceleration capital expenditure in nutritional ingredients through calendar years 2020 and 2021. The capital expenditure program is underway, with the increases in capacity available through both FY 2021 and FY 2022.

Dividends

Consistent with the positive outlook, the Group will pay an unfranked final dividend of 3.25 cents per ordinary share on 2nd December 2019.

The Group intends to pay an unfranked dividend for any dividends relating to FY 2020, reflecting likely reduced tax payments as the Group utilises tax losses from acquisitions and accelerated tax depreciation benefits from the current investment phase. The Group anticipates a return to paying fully franked dividends from increased profits after FY 2021.

The record date for determining entitlements is 4th November 2019 and the payment date is 2nd December 2019.

The Group's Dividend Reinvestment Plan (DRP) remains open for the final FY 2019 dividend payment. The Company thereafter intends to suspend the DRP until resolved otherwise by the Board.

The Group will pay an unfranked final convertible redeemable preference share dividend in accordance with the terms of the convertible redeemable preference shares. The record date for determining entitlements is 4th November 2019 and the payment date is 2nd December 2019.

There are 101,627 converting preference shares remaining on issue at 30th June 2019.

Group Outlook

Building a Global Food and Beverage business based in Australia

The Group is well positioned to build into a major global food and beverage business with scale in key food and beverage platforms, providing diversification in sales, together with earnings growth, from key markets and channels in Australia, China and SE Asia.

Our key brands Australia's Own and Freedom Foods will be at the forefront of driving our returns from our innovation and manufacturing capabilities in Australia and international markets. New brands recently launched also have the potential to be global success stories, MilkLab, Messy Monkeys and Heritage Mill have been extremely well received and are expanding at a tremendous rate.

With a large and significantly increasing base of dairy volume within the Group, the focus is on driving the dairy business towards specialty and high value-added products.

With the completion of stage one of a transformational Nutritionals capability, the Group will continue to evolve its scaled dairy capabilities into high value added protein based ingredients and consumer applications. New product revenue streams from the Nutritionals capability are expected to materially positively impact sales and earnings into FY 2020 and beyond.

The growth in sales and improving financial returns in our plant beverage business reflects the investment in brands and new capabilities at the Ingleburn site in Sydney. This business is expected to further contribute to profitability over the medium term as the Group focuses on driving its brands in retail and higher margin out of home channels and into SE Asia and China.

The cereal and snacks business is strategically well positioned to build a growth platform in multiple products, channels and distribution across Australia, China and SE Asia. The decision to exit a large a number of major contract manufacturing arrangements for key brand and private label customers in cereals and milling related activities has released capacity and capability for our own brand strategy and provide for increased financial returns in the medium to long term.

Our operating profits will increase as the Company moves out of the investment cycle, balanced against a requirement to invest in people, systems and process to manage a scaled and diversified business platform.

The Group continues to experience strong demand across its business activities in Australia, China and SE Asia. This growing demand in dairy, dairy nutritionals, plant beverages and cereal & snacks reflects demand for products from the Group's expanded operational footprint and increasing brand penetration providing for increased market share in key channels and categories in Australia, SE Asia and China.

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FNP Forward Looking Statement

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