ASX Announcement

Freedom Foods Group Limited (ASX: FNP)

Half Year FY 2014 Financial Results

Freedom Foods Group Limited (FNP) has today released the Company's preliminary half year results for the 6 months ending 31st December 2013.

Key Highlights

- Group Operating EBDITA of $6.8 million, a 64% increase on the previous corresponding period.
- Operating Net Profit was $4.2 million for the 6 months ended 31st December 2013, reflecting a 98% increase on the previous corresponding 6 month period.
- Sales growth increase in Freedom Foods reflecting growth in Cereals and Non Dairy beverages compared to the previous corresponding period, with business unit EBDITA increase reflecting sales growth and improved operating efficiencies at Leeton.
- Pactum Australia contributed a strong sales and business EBDITA contribution, reflecting increasing non-dairy production volumes particularly in support of Freedom branded and Private Label products in the fast growing almond beverage category.
- The establishment of the new Pactum Dairy Group (PDG) UHT dairy facility was progressed during the period with commercial production commencing in April 2014.
- Specialty Seafood business made a steady profit contribution, with the Brunswick Sardine brand maintaining its No 1 brand leadership position in Australia and New Zealand.
- A2 Corporation (A2C) (17.9% FNP shareholding) reported continued strong growth in the Australian fresh milk business with sales up 28% per cent over the prior year period. A2C's current market capitalisation implies a value for the Company's 17.9% shareholding of approximately A$102 million, materially above the book value of A$10.4 million.
- The Company completed a capital raising of $30m (gross proceeds) at $2.10 per share from a placement and entitlements offer in September 2013. The capital raising was significantly oversubscribed with strong demand from a broad range of high quality institutional investors and existing shareholders.
- Net Cash and financial assets position at December of $14.5 million compared to net debt of $7.8m at June 2013, reflecting the exercise of options by shareholders as well as the $30m capital raising during the period. During the period, the Company invested $5.8m in capital expenditure, $4.5m in equity associates and repaid debt of $12.1m.
- Net assets per share at $0.77 and net tangible assets of $0.63 per share. If A2C investment was recorded at market value (as compared to book value of $10.4m), the Net Assets per share would be $1.38.
- The Company is to pay an interim dividend for the half year of $0.015 fully franked per ordinary share paid on 30th April 2014. A fully franked converting preference share dividend to be paid on 15th April 2014.

Group Summary Result

The company achieved an Operating EBDITA of $6.8 million, an increase of 64% on the previous corresponding period, reflecting increased sales and profitability in the Freedom Foods and Pactum Australia business units and a steady contribution from Specialty Seafood.

Operating Pre-tax Profit was $5.7 million for the 6 months ended 31st December 2013, reflecting a 214% increase on the previous corresponding 6 month period.

Net Operating Profit was $4.2 million, an increase of 98%, including an increase in operating income tax expense to $1.5 million, against a $280k tax benefit for the prior year period. The result included non-cash employee share option expense of $180k (pre-tax).

The prior year period reported net profit included non-operating pre-tax profit of $11.8 million from the sale of 40 million shares in A2 Corporation in December 2012.

Net assets per share at $0.77 and net tangible assets of $0.63 per share, with A2C investment recorded at a book value of $10.4 million.

Summary Financials

6 months to 31 December	2013	2012	% Change
	$'000	$'000	
Gross Sales Revenues (1)	59,303	55,026	+7.8%
Net Sales Revenues (1)	51,273	46,757	+9.7%
EBDITA (Operating) (2)	6,781	4,132	+64%
EBITA (Operating) (2)	5,492	2,847	+92%
Equity Associates Share of Profit	450	513	-12.2%
Pre Tax Profit (Operating) (2)	5,742	1,828	+214%
Pre Tax Profit (Reported)	5,562	13,671	-59%
Net Profit (Operating) (2)	4,184	2,118	+98%
Net Profit (Reported)	4,004	10,080	-60%
Interim Ordinary Dividend (cps)	$0.015	$0.010	+50.0%
Interim CRPS Dividend (cps)	$0.0135	$0.0135	-
EPS (cents per share)(Fully Diluted for CRPS)	2.78	10.5	-74%
EPS Operating (cents per share)(Fully Diluted)	2.81	3.58	-22%
Net Debt / Equity (including fin assets)	n/a	28%	-
Net Assets per Share	77.0	55.3	+39%
Net Tangible Assets per Share	63.0	36.4	+74%

Notes:

(1) Gross Sales Revenues does not include revenues from group associate entities, A2 Corporation. Net Sales Revenues in the table above differs from the Appendix 4E, as the above sales includes Pactum sales to Freedom Foods, which is eliminated under consolidation accounting practice, but recognised by the Group as revenue, given the businesses sell at arm's length.

(2) Operating EBDITA and EBITA, excludes pre-tax abnormal or non-operating charges with an add back of non cash employee share option expense of $180k

Freedom Foods

The Freedom Foods business unit continued to build momentum from the prior financial year, delivering overall gross sales growth of 15% compared to the previous corresponding period.

During this period, the Freedom branded portfolio increased distribution with its major retail customers including a dedicated section within the health food category. With a focus on its core product portfolio of Cereal, Snacks and Non Dairy Beverage for future growth, the business is progressively reducing its presence in non-core categories including biscuits.

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 large scale manufacturing capability in Australia (and overseas) producing cereals and snacks “free from” key allergens such as gluten, nuts and dairy to the lowest detectable standards.

Dairy alternative beverage sales continued the trend from FY 13 with volume growth of 35% compared to the previous corresponding period, reflecting increased market share of Australia’s Own Organic and Blue Diamond Almond Breeze brands, within a significantly growing category.

The business invested in senior sales and marketing expertise to drive growth in retail and other channels.

In North America, Freedom through its new 80% owned subsidiary, invested in building sales and distribution capabilities, including establishing key relationships with distributors, brokers and retailers within the Specialty and Natural Product Retailer markets. This investment now provides a strong base of retail distribution coming on stream into calendar 2014, building on Freedom’s unique allergen free and non GMO capabilities.

The impact of sales and efficiency improvements during the period resulted in significantly increased business unit EBDITA, inclusive of a loss of $250k from start up operations in North America during the period.

The focus for the business into 2014 remains on increasing sales in Australia through building on its category leadership in the health channel and further growth in distribution channels.

An exciting innovation pipeline to be launched in the 2014 calendar year will see new products in Cereals, Non Dairy Beverages, Snack Bars and new formats for convenience and food service channels. This aligned with investment in building awareness of the brand and products across a broader consumer market open to healthier digestive and nutritional products, provides a strong base for growth into future years.

In North America, the business is focussed on building sales within a core base of retail distribution coming on stream into 2014. The business has established ranging in excess of 2,000 stores including retailers such as Sprouts, Giant Eagle, Raleys, HEB and Kroger’s, reflecting Freedom unique proposition in Allergen Free and Non GMO. The business remains focussed on delivering its long term sales target of up to 1 million cases of Freedom branded Cereals and Cereal snacks.

The $3.5 million investment on downstream cereal packaging capabilities at the Leeton site to improve efficiencies and provide for increased capacity in range and format will be installed and operating by March 14.

The $2.5 million investment in additional Cereal extrusion capacity to meet ongoing growth requirements in Australian and International markets in relation to Cereals and Cereal based products such as bars and ingredients remains on plan for installation from June 2014. Both investments will significantly increase Freedom Foods Cereal production capability, with no material net increase in cash overheads.

During the period, the business commenced an $8 million upgrade to its nutritional snack manufacturing capabilities, to improve efficiencies and provide the ability to meet demand for nutritious allergen free snacks in a range of consumption formats in Australia and internationally. The equipment will be come on line in two stages between August and December 2014.

Specialty Seafood

The Speciality Seafood business performed broadly in line with the previous corresponding period.

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

In Salmon, Paramount was impacted by SKU ranging reductions implemented during 2nd half FY 2013, although the effect on profitability of these reductions was reduced through management of promotional spend and improved cost of goods against plan.

The business into 2014 remains focussed on driving growth through category leadership of the speciality seafood channel, including new product opportunities aligned to consumer demand for convenience and superior health benefits. As part of this the business is introducing revitalised packaging for the Brunswick and Paramounts brands.

The business continued to utilise the procurement power of Bumble Bee Foods of North America, with Bumble Bee securing 2014 inventory requirements through priority access to Salmon and Sardine catch volumes.

Pactum Australia Business

Pactum Australia

Pactum Australia which provides innovative solutions in long life (UHT) food beverages for private label and proprietary customers, delivered a strong sales and business EBDITA contribution.

Pactum Australia non-dairy production volumes increased during the period to support the growth of the Freedom Foods Australia's Own and Blue Diamond brands and Private Label requirements in the fast growing almond beverage category.

The business continued to see benefit at its Sydney facility of increasing its mix of value added UHT products to a range of private label and proprietary customers, while migrating out of standard dairy milk production, ahead of the commencement of new UHT dairy facilities in Shepparton.

Into 2014, the business is focussed on increasing its value added production capabilities to meet the increasing demands from its private label and proprietary customer base.

From July 2014, Pactum will expand its capabilities with installation of 250ml Prisma Format and 330ml Prisma Dreamcap formats. The packaging capability will be owned by Pactum Australia and operated at PDG's Shepparton facility. Both capabilities will be for domestic customers and dairy based export customers. The total investment will be approximately $15 million, with an initial earnings contribution from FY 15 and phased development over 3 years.

The business is also reviewing options for its Taren Point site, including potential expansion and redevelopment to provide for increased capacity and efficiencies in production and logistics in the longer term.

Pactum Dairy Group (PDG) 50% Equity Interest

In December 2012, Pactum announced its intention to build a state-of-the-art UHT processing plant at Shepparton to meet demand for high quality dairy milk in export and domestic markets.

The primary market focus of the new capacity is on supply of high quality UHT dairy milk for export markets to proprietary and private label customers in South East Asia, including China. The location of the new plant at Shepparton in Victoria will provide for long term access to sustainable and economic sources of dairy milk.

PDG is a joint venture between Pactum and Australian Consolidated Milk (ACM), a major Australian dairy milk supply group. Pactum manages 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 the supply of high quality dairy milk, coordinated under long term arrangements with Australian dairy farmers.

The new UHT dairy facility at Shepparton is well advanced with commissioning trials commencing during the period in December 2013. Total construction time was approximately 9 months, with the project largely on budget. The initial capabilities of the plant are 1 Litre and 250ml portion pack UHT configuration. Initial capacity will be up to 100m litres, with capability to significantly increase this capacity in the longer term.

The plant is expected to be in commercial production by April 2014 and the business is well advanced in securing volumes ahead of its 3 year business plan, with strong demand for 1 Litre volume from South East Asia and China and the initial 250ml volume committed.

As announced during 2013, the business has also secured some significant long term customers including A2 Corporation (for exclusive UHT supply into Australia, China and SE Asia) and Shenzhen JLL for China.

As part of its strategy to develop long term value added supply relationships into China and SE Asia, Freedom Foods and PDG entered a licence and supply agreement with Shenzhen JLL Group (JLL) in China. JLL will work with Freedom to take dairy products into the China market under long standing brands. JLL will invest in brand marketing and distribution. JLL is owned by parties associated with the development of significant consumer beverage brands in the China market.

PDG is currently evaluating additional capacity expansion to meet expected customer demands beyond 2014, including expansion of warehousing and logistics capability. Opportunities to vertically integrate into other value added dairy activities are also being reviewed.

Strategic Equity Associates

A2 Corporation Limited (A2C), 17.9% 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™ branded milk is the fastest growing milk brand in the Australian market and the major driver of category growth nationally, accounting for approximately 8.0% of grocery channel market share by value. A2C launched during the 2013 year a2™ Platinum™ infant formula to consumers in China, Australia and New Zealand. New arrangements to accelerate development of the business in the United Kingdom were progressed with acquisition of the UK joint venture completed on 1 January 2014. A plan to enter the North American fresh milk market is progressing.

FNP is the largest single shareholder in A2C with a fully diluted shareholding of 17.9%. A2C is listed on the main board of the New Zealand Stock Exchange (NZX: ATM), with a current market capitalisation of approximately NZ$622 million (A$575 million) implying a value for FNP's 17.9% investment of around A$102 million, materially above the book value of A$10.4 million. While FNP intends to maintain a strategic shareholding in the medium term, it will retain the option to realise capital from the investment to support growth opportunities.

Capital Management

The Company had a net cash position (including financial assets) of $14.5m at the half year, compared to a Net Debt of $7.8m as at 30 June 2013, reflecting the capital raising in September 2013 and exercise of options by shareholders and employees.

Net cash flow from operations was $4.2m, reflecting improved operating performance and increased working capital. During the period, the Company invested $5.8m in capital expenditure, $4.5m in equity associates and repaid debt of $12.1m. The capital expenditure of $5.8 million comprised operating expenditures, commitments to expansion at Freedom's Leeton facility and expansion of Pactum's packaging capabilities at Shepparton.

The Company completed a capital raising of $30m (gross proceeds) from a placement and entitlements offer in September 2013. The capital raising was significantly oversubscribed with strong demand from a broad range of high quality institutional investors and existing shareholders. The proceeds of the Placement and Entitlement Offer will be used to fund the Company's growth strategy including acceleration of new capital projects within Freedom Foods and Pactum Australia, new product initiatives, acceleration of international sales activities and additional working capital requirements.

The Company has on issue approximately 152,000 convertible redeemable preference shares (CRPS), which are convertible 1 for 1 into ordinary shares at election of the holder at any time. The Company has a buy back option from December 2013, which it intends to proceed with for any CRPS not converted into ordinary shares from March 2014.

Dividends

Consistent with the continued improvement in group performance, the Company will pay an interim fully franked dividend of $0.015 per ordinary share, an increase of $0.005 on the interim dividend paid in April 2013. The record date for determining entitlements is 1st April 2014 and the payment date is 30th April 2014.

The Company will pay a fully franked converting preference share dividend to be paid in accordance with the terms of the converting preference shares. The record date for determining entitlements is 1st April 2014 and the payment date is 15th April 2014.

Outlook

The Company continues a 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 continue to deliver improved results from growth through innovation in new products, expansion of distribution channels in Australia and international markets, aligned with increasing manufacturing efficiencies from volume and cost efficiencies arising from the capital investment program at the Leeton facility. This aligned with investment in building awareness of the brand across a broader consumer market open to healthier products provide a strong base for growth into future years.

The expansion of packaging capabilities in Pactum will result in an increase in sales and profitability, 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 material medium term opportunity to increase exposure to the growing demand for high quality and safe dairy products from South East Asia, including China, with profit contribution expected from FY 2015.

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 2nd half, compared to the 1st half period.

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