

Forbidden Foods Limited ASX: FFF

ASX Announcement

31 January 2023

US market scale up lays strong foundation for growth

Q2 FY23 Quarterly Activities Report

Forbidden Foods Ltd (ASX: FFF) ("Forbidden Foods" or "the Company"), provides an update on its activities during the quarter ended 31 December 2022.

Key Highlights

- *Launch of flagship store on Amazon US for Blue Dinosaur[®] products, with core product lines available through Amazon Prime – products eligible for expedited shipping to capture US market share*
- *Consolidation of major distribution partnerships for Blue Dinosaur[®] with several leading US retail networks, including a product ranging agreement with Associated Food Stores – a cooperative supplying over 500 retailers across eight US states – and two additional supermarket banners with a market footprint of +375 stores nationally*
- *US distribution underpinned by strong execution on supply chain logistics, with successful completion of the first US-based production run for Blue Dinosaur[®] products and a critical distribution agreement with KeHE Distributors, one of the largest pure-play grocery and natural distributors in the US servicing 30,000+ store locations and 23 of the country's top 50 retailers*
- *Q2 momentum in the US complemented by a strong quarter of growth in Australia, where Forbidden Foods secured a product ranging agreement for Blue Dinosaur[®] at Coles supermarkets nationally while monthly sales growth through Australian ecommerce channels rose by more than 100% in November 2022 on a pcp basis*

Financial Highlights

- *Net revenues of \$1.33m for the quarter, up ~11% quarter on quarter ("QoQ")*
- *Non-branded revenue decreased as Forbidden Foods strategically exited foodservice ahead of schedule – allows management to focus on pursuit of high margin revenue through sale of Blue Dinosaur[®] in Australia and the US*
- *Exit from foodservice coupled with disciplined inventory and working capital management enabled a 33% reduction in inventory holdings on a QoQ basis*
- *Operating cash outflows improved 5.5% on pcq through implementation of disciplined cost control measures*
- *Operating expenditure expected to further reduce over coming quarters following a decrease in headcount, a reduction in marketing activities across FUNCH[®] and Sensory Mill[®], and the end of a lease agreement.*
- *Placement to raise \$1.08m (before costs) finalised and Rights Issue to raise approximately \$1.22m launched*

Operational Review

Forbidden Foods continued its shift into direct retail and ecommerce channels, with an increased focus on US growth. Major milestones included several product ranging agreements with large US retail groups, the completion of the first production of Blue Dinosaur[®] in the US and the launch of the Company's flagship Amazon US store.

The Company also continued to implement a number of cost optimisation strategies, which are expected to reduce operational expenditure over the coming months, *while allowing management to maintain focus US growth opportunities*. Coupled with increasing branded revenues, Forbidden Foods has laid a strong foundation for significant growth across the remainder of FY23 and beyond.

Completion of maiden production run of Blue Dinosaur[®] in the US:

In a major milestone, the Company completed its first manufacturing run of Blue Dinosaur[®] products for the US market. This followed manufacturing trials during May 2022 and has led to the first production of four stockkeeping units (SKU), which will be used to fulfil initial orders from the Company's US distribution partners.

Major ranging for Blue Dinosaur[®] with large US retail groups:

US retail stores

Throughout the quarter, Forbidden Foods secured several key distribution partnerships with major US retailers for its Blue Dinosaur[®] product range, across both online and in-store channels. In early October, the Company announced a product-ranging agreement with Associated Food Stores in the United States – a retailer cooperative supplying more than 500 retailers across the Intermountain West including stores throughout Utah, Arizona, Idaho, Colorado, Montana, Oregon, Nevada, and Wyoming. This agreement followed on from a key distribution announcement in September 2022 with KeHE Distributors, which is one of the largest distribution conglomerates in the US with a national client network of more than 30,000 stores. Product fulfillment for the Associated Food Stores contract will be carried out via the KeHE partnership, which also opened up a number of additional distribution channels during Q2.

Ranging with Associated Food Stores was quickly followed by product-ranging deals with two more US supermarket banners – Fresh Thyme Market and ShopRite Supermarkets, which together comprise more than 375 supermarket outlets in key US states. Fresh Thyme primarily serves the US Midwest and is backed with investment from US retail giant Meijer, one of the largest private companies and retailers in the United States. ShopRite operates as a cooperative chain of supermarkets serving states in the US Northeast. It is the largest retailer-owned cooperative in the United States and the largest employer in New Jersey.

US ecommerce

Momentum in the group's bricks and mortar strategy was complemented by the November launch of a flagship online store for Blue Dinosaur[®] products with US ecommerce giant Amazon. With over 2 billion monthly visitors, Amazon is the 13th most visited website in the world and core Blue Dinosaur[®] product lines will be fulfilled by Amazon US, allowing for the product range to be sold through the Amazon Prime subscription service.

Australian market

Accompanying its US growth, Forbidden Foods also secured product ranging for Blue Dinosaur® SKUs at Coles stores nation-wide in the Australian market. During the quarter, Blue Dinosaur® products were distributed through the Coles network across all major state markets (pending WA, where the rollout is scheduled for completion this quarter), with favourable floor positioning in the 'Food to Go' section which benefits from consistently high foot traffic. With favourable feedback received to-date from the buyer, Forbidden Foods is well positioned to strengthen its market footprint for Blue Dinosaur® products in the Australian supermarket sector over the next 12 months.

The Blue Dinosaur® range also generated strong traction through Australian online channels in the December quarter, where the Company capitalised on Black Friday and Cyber Monday promotional events to drive increased sales growth. Those initiatives resulted in a strong monthly result in November where product sales totalled \$73,000 – an increase of more than 110% from the prior year comparative period.

During the quarter, Forbidden Foods also negotiated the early termination of a foodservice contract with FreshMex Sauces Pty Ltd ("Zambrero"), which was scheduled to expire on 31 March 2023. The decision aligns with the Company's strategic shift away from foodservice, and will unlock significant working capital for redeployment to target the ongoing growth of Blue Dinosaur® sales in the US.

Corporate overview

Placement to raise \$1.08m for US growth:

During the quarter, Forbidden Foods finalised a share placement to institutional, sophisticated and professional investors to raise \$1.08m (before costs) through the issue of 30.42m new fully paid ordinary shares at an issue price of \$0.0355 per share.

The strategic rationale for the capital raising is to provide Forbidden Foods with the balance sheet strength to further capitalise on the exciting growth opportunity it has established in the US market. Funds raised will be deployed towards expanded inventory management and manufacturing operations, where the Company is targeting **more** seamless production and delivery processes to meet pending demand, as well as additional brand awareness through online and in-store marketing initiatives.

Entitlements issue:

Accompanying the share placement, Forbidden Foods also announced a 1:3 rights issue to eligible shareholders, to issue up to 34.47m new fully paid ordinary shares at \$0.035 to raise approximately \$1.22m. Both the Placement and Rights Issue will include a free quoted option on the basis of one option for every two shares subscribed under the Placement or the Rights Issue. Additional funding from the entitlement issue will provide the Company with sufficient financial flexibility to broaden its US presence and revenue profile.

ASX additional information:

In accordance with ASX Listing Rule 4.7C.3, Forbidden Foods advises that an amount of \$88,000 was paid to executive and non-executive directors in payment of their directors' fees, salaries, and post-employment benefits.

This ASX announcement has been approved for release by the Board of Directors of Forbidden Foods Ltd.

For further information, please contact:

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About Forbidden Foods Ltd

Forbidden Foods Ltd (ASX: FFF) is a multi-brand premium food company focusing on the infant & toddler and health & wellness plant-based markets. The Company was established with a vision to provide the very best foods to meet consumer demand for clean, sustainable, plant-based and healthy products. The business sells products via its three brands – Blue Dinosaur[®], FUNCH[®] and Sensory Mill[®]

Appendix 4C

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

Name of entity

FORBIDDEN FOODS LIMITED (ASX: FFF)

ABN

82 616 507 334

Quarter ended ("current quarter")

31 December 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	1,314	2,660
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,377)	(2,931)
(c) advertising and marketing	(193)	(597)
(d) leased assets	-	-
(e) staff costs	(564)	(1,186)
(f) administration and corporate costs	(34)	(75)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	1
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	73	73
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(781)	(2,055)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(11)	(28)

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	(11)	(28)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	918	918
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	(88)	(88)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(38)	(80)
3.10	Net cash from / (used in) financing activities	792	750

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	964	2,297
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(781)	(2,055)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(11)	(28)

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)	792	750
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	964	964

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	964	964
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)	964	964

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	88
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000																																			
7.1	Loan facilities	1,250	119																																			
7.2	Credit standby arrangements	-	-																																			
7.3	Other (please specify)	45	12																																			
7.4	Total financing facilities	1,295	131																																			
7.5	Unused financing facilities available at quarter end		1,164																																			
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.																																					
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Facility</th> <th style="width: 15%;">Facility limit \$A'000</th> <th style="width: 15%;">Amount drawn \$A'000</th> <th style="width: 20%;">Interest rate</th> <th style="width: 20%;">Secured</th> </tr> </thead> <tbody> <tr> <td>American Express – Credit cards</td> <td style="text-align: right;">15</td> <td style="text-align: right;">11</td> <td style="text-align: right;">21.99% p.a.</td> <td>No</td> </tr> <tr> <td>NAB – Credit cards</td> <td style="text-align: right;">30</td> <td style="text-align: right;">1</td> <td style="text-align: right;">13.25% p.a.</td> <td>No</td> </tr> <tr> <td>Moneytech:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Debtor finance</td> <td style="text-align: right;">1,000</td> <td style="text-align: right;">(72)</td> <td style="text-align: right;">10.41% p.a.</td> <td>Yes</td> </tr> <tr> <td>Trade finance</td> <td style="text-align: right;">250</td> <td style="text-align: right;">191</td> <td style="text-align: right;">11.61% p.a.</td> <td>Yes</td> </tr> <tr> <td>Totals</td> <td style="text-align: right;">1,295</td> <td style="text-align: right;">131</td> <td></td> <td></td> </tr> </tbody> </table>			Facility	Facility limit \$A'000	Amount drawn \$A'000	Interest rate	Secured	American Express – Credit cards	15	11	21.99% p.a.	No	NAB – Credit cards	30	1	13.25% p.a.	No	Moneytech:					Debtor finance	1,000	(72)	10.41% p.a.	Yes	Trade finance	250	191	11.61% p.a.	Yes	Totals	1,295	131		
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	¹ The ANZ bank overdraft limit is NZD \$10,000 and has been converted to AUD in the above table.																																					
	The items included as other facilities are the American Express and NAB credit cards.																																					

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(781)
8.2	Cash and cash equivalents at quarter end (item 4.6)	964
8.3	Unused finance facilities available at quarter end (item 7.5)	1,164
8.4	Total available funding (item 8.2 + item 8.3)	2,128
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.7
	<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:	
8.6.1	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:	

8.6.2 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:

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

Answer:

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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 January 2023

Authorised by: by the Board of Directors.....

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.