



Skin Elements Limited ASX ANNOUNCEMENT

ASX CODE : SKN

19 April 2017

Skin Elements to Acquire Leading Natural Skin Care Business, McArthur Skincare

Key Points

- Skin Elements to acquire leading Australian natural skin care business McArthur Skincare for total cash and scrip consideration of \$1m comprising:
 - \$300,000 payment in cash;
 - \$600,000 payment to be satisfied by the issue of Skin Elements ordinary shares at an issue price equal to the 7 day VWAP prior to the completion date of 28 April 2017 but not less than \$0.20 per share; and
 - \$100,000 payment in cash, as part payment for stock
- Acquisition is highly synergistic and immediately value accretive for Skin Elements
- Transforms Skin Elements into a natural skin care company of increased scale and size with the addition of the McArthur Skincare product range.
- McArthur Skincare is one of Australia's leading manufacturers and distributors of natural skin care products and has generated total sales of over \$22m since being founded in 2010.
- McArthur Skincare has a range of 17 therapeutic and cosmetic skin care products and an established multi-channel sales model
- Post acquisition, the Company will have an expanded product range of 29 products covering therapeutic skin care, sun care, and cosmetic skin care
- Skin Elements will seek to utilise McArthur Skincare's strong sales channels to drive sales of its Soléo branded products and will seek new sales channels including international markets for the entire consolidated product range
- The acquisition is subject to completion of due diligence to the satisfaction of Skin Elements to be completed by 27 April 2017

Australian natural skin care company Skin Elements Limited (ASX: SKN) (Skin Elements, the Company) is pleased to announce that it has entered into a Binding Agreement (Agreement) to acquire the business and business assets of Tom McArthur Pty Ltd, the owner and manufacturer of the McArthur Skincare Pty Ltd (McArthur Skincare) range of therapeutic and cosmetic skin care products.

This represents a highly complementary, synergistic and value accretive acquisition for Skin Elements. McArthur Skincare is an established, highly successful 100% Australian owned and operated business with a comprehensive range of 17 skin care products, including Therapeutic Goods Administration (TGA) listed therapeutic products and other cosmetic skin care products.

Acquisition Terms

Under the Agreement, Skin Elements will acquire McArthur Skincare for a total consideration of \$1 million, as follows:

- \$300,000 payment in cash;
- \$600,000 payment to be satisfied by the issue of Skin Elements ordinary shares at an issue price equal to the 7 day VWAP prior to the completion date on 28 April 2017 but not less than \$0.20 per share; and
- \$100,000 payment in cash, as a part payment for McArthur Skincare's stock on hand, including pending orders, at the time of the completion of the Agreement (Commencement Stock).

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The only condition to completion is completion of due diligence to the satisfaction of Skin Elements, to be completed by 27 April 2017.

At the successful completion of the acquisition, it is proposed that Mr Filippo Giglia will join the Skin Elements board as a Non-executive Director.

Benefits of Acquisition

The acquisition will immediately transform Skin Elements into an Australian owned and operated natural skin care company of increased scale and size with the addition of the McArthur Skincare product range.

Post-acquisition, the Company will have an expanded product range of 29 products covering therapeutic skin care, sun care, and cosmetic skin and beauty care. Skin Elements will seek to immediately grow sales of the highly popular McArthur Skincare products, while at the same preparing for the first commercial scale production run of its core product, the Soléo Organics 100% natural and organic sunscreen.

Skin Elements will seek to utilise McArthur Skincare's strong, established sales channels to drive sales of its Soleo branded products, and will also seek to open new sales and distribution channels for the entire consolidated product range.

Both companies share a common philosophy and commitment to using natural ingredients in their products to deliver the highest quality, healthy skin care solutions to customers. These shared values will help facilitate the integration of the two businesses and product ranges.

Moving forward, Skin Elements will seek to further expand the product range with brand extensions to its Soleo sunscreen, and other new innovative skin care products to be developed by an expanded product development team.

About McArthur Skincare

McArthur Skincare was founded in 2010 and has grown to become one of Australia's leading manufacturers and distributors of natural pawpaw-based skin care products, generating total sales of over \$22 million. It is headquartered in Perth, Western Australia and its products are manufactured at TGA / GMP approved laboratory facilities in Brisbane, Australia.

The business has enjoyed significant growth since inception. Its product range has expanded from an initial launch of three skin care products to now having a diverse range of 17 therapeutic and cosmetic skin care products. The therapeutic products are all listed on the Australian Register of Therapeutic Goods (ARTG), and are designed to provide symptomatic relief for psoriasis, dermatitis, eczema and rashes, minor burns and wounds, and muscle, joint and rheumatic pain.

Further details of McArthur Skincare's therapeutic skin care products are appended to this announcement.

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McArthur Skincare Sales Model

McArthur Skincare has developed a highly successful, multi-channel sales model which includes global retail direct online sales from the Company website. This is supported by digital media sales channels such as Facebook, eBay and major Chinese online retail B2C shopping platforms, Tmall and JD.

Its products are also well stocked at leading pharmacies and health food stores Australia wide, including; Friendlies Pharmacy, Advantage Pharmacy, Malouf Pharmacy, Wizard Pharmacy, Vitamin King, Terry White Chemists, Pharmacy Alliance, Pharmacy 777 and Go Vita Health Food Stores.

The business is focused on growing its footprint in international markets, and has generated strong interest in establishing new sales and distribution partnerships in key global markets, such as the UK, USA and China, as well as additional distribution partnerships in Australia.

Next Steps

The Agreement to effect the acquisition has been executed by Skin Elements and McArthur Skincare. Skin Elements will now undertake due diligence on McArthur Skincare, which is to be completed on or before 27 April 2017.

Subject to completion of due diligence to Skin Elements satisfaction, the parties will immediately move to complete the acquisition on 28 April 2017. This will require Skin Elements to issue Skin Elements Ordinary Shares to McArthur Skincare and make the cash payments to McArthur Skincare as per the acquisition consideration. On the completion date, the Company will take control of the business assets of McArthur Skincare including the McArthur Skincare product range, and assume the business operations including deriving revenue from sale of products and be responsible for the manufacture of products and operational expenses.

The Company will update the market on its due diligence process in due course.

Commenting on the acquisition Skin Elements Executive Chairman Mr Peter Malone said:

"We are delighted to enter into this Agreement to acquire McArthur Skincare. We see this as a company changing acquisition for Skin Elements. It is not only highly complementary and immediately value accretive, but the shared core values of both Companies in their commitment to delivering high quality, natural skin care products makes the acquisition an ideal fit – and positions the Company for substantial growth. We now look forward to working through our diligence process in a timely manner, to be in a position to complete the acquisition and commence the integration of the McArthur Skincare business. Based on our research there is a demand for pawpaw cosmetics and therapeutic products and we are delighted for these to be a part of our product range."

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McArthur Skincare Director Gregory Kay said:

"This acquisition will result in a complimentary and extensive range of cosmetic and therapeutic skin and hair care products containing natural ingredients. McArthur Skincare believes this will result in substantial growth across various sales channels both in the Australian and international markets. There is a high demand in the significant overseas markets for pawpaw-based and other skincare products that are made in Australia. McArthur Skincare is excited that this large range of skin and hair care products, providing highly effective beauty and wellness benefits, will now have a greater reach."

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About Skin Elements

Skin Elements is an ASX-listed skin care company focused on the development of natural and organic skin care products, as an alternative to current chemical-based products. It has developed a portfolio of products which includes its lead product, the Soléo Organics 100% natural and organic sunscreen, and the Elizabeth Jane Natural Cosmetics brand. The Company has completed a highly successful test marketing phase in major international markets for Soléo Organics and has regulatory approval with the USA FDA, TGA and other significant regulators. Skin Elements aims to become the number one recognised national and international sunscreen brand.

Further information is available via the Company website: <http://soleoorganics.com/>

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APPENDIX 1: McArthur Skincare Therapeutic Product Range

Arthritis Cream

ARTG ID: 235536

Contains the active natural ingredients Aloe Vera, and Arnica which are traditionally used in herbal medicine for the relief of mild arthritis.

Eczema Cream

ARTG ID: 235530

Contains the active natural ingredients Chamomile and Chickweed which are traditionally used in herbal medicine for the relief of mild itchy, irritated and inflamed skin associated with eczema.

Psoriasis, Dermatitis and Rashes Cream

ARTG ID: 235534

Contains the active natural ingredients Aloe Vera and Chickweed which are traditionally used in herbal medicine for the relief of mild itchy, irritated and dry skin associated with psoriasis, dermatitis and rashes.

Muscle Aches & Pain Cream

ARTG ID: 235531

Contains the active natural ingredients Aloe Vera and Arnica which are traditionally used in herbal medicine for the relief of mild pain in muscles and joints.

Wounds & Burns Cream

ARTG ID: 235529

Contains the active natural ingredient Aloe Vera traditionally used in herbal medicine in the healing of minor wounds, burns and sunburn.

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