



## ASX Announcement: 31 August 2020

### ELIXINOL GLOBAL LIMITED H1 FY2020 RESULTS STRATEGIC RESET AND IMPROVING OUTLOOK

#### Summary:

- Under new group leadership and with a renewed board, Elixinol aggressively repositioned in H1 FY2020:
  - Operations have been reshaped to cut cost and improve profitability
  - Successfully relaunched the Elixinol brand along with new global product line up
  - An upskilled US leadership team was established
- Substantial cost reduction program completed in June 2020, Elixinol now moves into H2 FY2020 with an annualised cost base approximately 45% lower than FY2019
- H1 FY2020 revenue from continuing operations of \$7.9m<sup>1</sup> (unaudited), down 54% (\$17.1m in H1 FY2019) as COVID-19 impacts and mixed regulatory environments led to challenging retail market conditions
- Revenue mix continued to shift towards higher margin Elixinol branded products, accounting for 64% of revenue in H1 FY2020, versus 50% in H1 FY2019
- \$16.8m cash on hand, virtually no debt, inventory to support revenue growth for more than 12 months
- Non-cash impairment charges of \$60.3m primarily driven by COVID-19 related impacts, with book value now aligning more closely with trading valuation

#### H2 2020 Outlook

Significant post period updates lead to an improved H2 FY2020 outlook, including:

- Internal revenue forecast achieved in July 2020, with positive trend continuing through August to date
- Momentum accelerating in Europe and UK, underpinned by key new distribution agreements in UK pharmacies and launch of elixinolSkin range
- Distribution agreement for Elixinol CBD products in Australia with PharmaCann
- Announcement of improved Hemp Foods Australia revenue and EBITDA performance
- Licensing agreement with Elixinol Japan now in place

**Elixinol Global Limited (Elixinol or the Company) (ASX:EXL; OTC:ELLXF)**, a global leader in the hemp derived CBD industry, innovating, marketing and selling hemp derived CBD products, releases its half year results and Appendix 4D interim report the half year ended 30 June 2020 (H1 FY2020).

<sup>1</sup> All dollar amounts are in AUD unless otherwise stated; Average USD/AUD for H1 FY2020 = 0.6580. All figures for H1 FY2020 are unaudited. The Company is relying on ASIC Relief to extend the lodgement date for filing its reviewed half year accounts.



Executive Director and Group CEO, Oliver Horn, commented: *“In the first half of FY2020, the new Board aggressively repositioned Elixinol towards the high growth global nutraceutical wellness category, whilst dramatically reducing costs and creating new business capabilities to put ourselves in the strongest possible position for H2 and beyond.*

*We created leaner, more agile teams and significantly reduced cost whilst remaining focused on our strategy to create a profitable, high margin, global nutraceuticals brand. Given our strong inventory position and in line with our capital-light strategy, we exited our involvement in farming activities and temporarily decommissioned our inhouse manufacturing while the economics are in favour of an outsourced manufacturing model. We divested Nunyara assets and retained Hemp Foods Australia, which is successfully transitioning towards a more profitable model and provides the platform from which to launch Elixinol CBD products in Australia.”*

*“Post period, in July, we’ve seen the business improving across all divisions. All business units achieved internal EBITDA forecasts, demonstrating that revenue and cost have been well managed. The US exceeded its July forecast and delivered the strongest revenue month since March. Hemp Foods Australia also had a strong month with sales of its profitable core product lines at record levels since late 2018. With the European and UK business having secured extended distribution, an encouraging order book and launch of our new elixinolSkin range, we are seeing a positive continuation of this trend in August. We have not yet realised full benefit from our cost reduction program - this will positively impact the business from H2 FY2020. I am confident that the Group has started moving in a positive direction.”*

*“A non-cash charge for asset impairments has been recorded which brings the Group’s book value closer to its current market value. With hopefully improving market conditions, Elixinol enters the second half with a much leaner cost structure and a strong platform for growth.”*

### Financial performance

Elixinol Global reported H1 FY2020 revenue from continuing operations of \$7.9m, down 54% (\$17.1m in H1 FY2019) as US traditional retail COVID-19 impacts led to challenging retail market conditions. In line with the strategic decision to reduce bulk and lower margin business, the Group’s revenue mix continued to shift towards higher margin Elixinol branded products representing 64% of revenue in H1 FY2020, versus 50% in H1 FY2019.

Operating expenses, excluding impairment charges, for H1 FY2020 were \$17.2m, down 12% from \$19.6m in H1 FY2019. With cost reduction initiatives undertaken throughout H1 including further headcount reductions completed in June, the Company moves into H2 FY2020 with an annualised cost base approximately 45% lower than FY2019.

Adjusted EBITDA from continuing operations was \$14.8m loss in H1 FY2020, compared to \$11.0m loss in H1 FY2019. Net loss after tax was \$81.6m in H1 FY2020, compared to \$9.8m



loss in H1 FY2019. In accordance with Accounting Standards, the Company has recorded non-cash impairment charges of \$60.3m primarily due to COVID-19 related impacts. Key impairment items relate to goodwill and other intangibles (\$30.5); inventory related provisions (\$20.2); the Altmed Pets investment (Pet Releaf) (\$4.7) as well as some property, plant and equipment (\$4.9).

The Group has \$16.8m of cash, virtually no debt and usable inventory to support revenue growth for more than 12 months.

### Outlook

CBD and nutraceutical wellness products are highly relevant in the current COVID-19 environment and are rapidly gaining acceptance amongst consumers worldwide. According to Brightfield's July 2020 report<sup>2</sup>, the world's biggest CBD market, the US is expected to see a reduced, yet healthy 26% cumulative annual growth rate (in the CBD market) to \$16.8B in 2025. This trend is representative of growth in CBD uptake expected in many global markets where Elixinol operates in.

While COVID-19 related lockdowns have clearly impacted the ability to get Elixinol CBD products to customers in some physical retail environments, positive trends are emerging in the pharmacy channel as consumers seek ways of better protecting their health. As evidence of this:

- Well Pharmacy, the UK's 3<sup>rd</sup> largest pharmacy chain with 760 stores, in August launched 5 Elixinol branded CBD stock keeping units (SKUs or products) across 80 of their stores. It is expected that a further 3 products will launch across additional stores in September.
- Boots Ireland, one of Ireland's largest pharmacy chains, will launch 8 elixinolSkin CBD skincare products in 70 stores from September onwards. The launch with Boots Ireland represents the culmination of over a year's work and a strategic break-through as we are entering a new high growth category that is less regulated than digestible CBD products, thereby supporting our strategy to build global distribution more easily.

In parallel, healthy on-going baseline performance continues via TV shopping channels in Germany and UK.

Of further note, Hemp Foods Australia secured a supply agreement with Costco Australia for its Essential Hemp branded hemp seeds, which are expected to be on shelves in Q4 2020.

Hemp Foods Australia grew +25% in H1 vs the same period last year as a result of recently increased interest from consumers in health food products. This growth occurred in parallel with profitability improvements. Moving forward, Hemp Foods Australia will continue to focus

<sup>2</sup> Brightfield Group, *Navigating Seismic Shifts*, July 2020 US CBD Report



on revenue growth with improved margins and leveraging its scale to support the launch of Elixinol CBD products via the partnership in Australia with PharmaCann.

Given the importance of global e-commerce and to further drive the Company's global Magento e-commerce platform roll-out and optimisation, a Global Head of Digital Consumer Experience & E-Commerce has been appointed, based in UK, and reporting to the Group CEO. The US based web-services team is being expanded to improve global technical support as the company continues to invest in its improving e-commerce capabilities.

Following the complete review and evaluation of the group in H1 FY2020, Elixinol moves forward with a refreshed brand, new leadership, a reduced cost base and a stabilised US business. These positive dynamics give Elixinol confidence in its ability to deliver a much improved H2 FY2020.

### Operations Update: Q2 FY2020

#### Elixinol brand relaunch

During the June quarter, and following the relaunch of Elixinol branded products in late March 2020, the Company continued to shift its channel strategy towards higher margin, Elixinol branded CBD consumer nutraceuticals as the key revenue driver.

The new, differentiated range is perfectly positioned to respond to growing consumer health and wellness needs and has received positive, early feedback from customers and consumers. CBD has been blended with other actives, such as Turmeric, Chamomile, Ashwaganda and various vitamins, to create a wide range of Elixinol products with proven health benefits. This approach has enabled the Company to strengthen consumer communication with substantiated health claims. Product formulations have been driven by customer demand at both the enterprise and consumer level, and include tinctures, topicals, capsules, and powders.



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The range launch has been supported through creative advertising solutions, specifically designed for the online and e-commerce environment. Underpinning the launch of our new product range is a comprehensive sales and marketing strategy, including an updated Magento e-commerce platform that provides leading digital capabilities to support our sales and marketing efforts in the rapidly expanding e-commerce channel. The online platform also delivers educational product support and enables the tracking of consumer shopping behaviour in real-time.

### Americas

In the US, the regulatory environment remains dynamic and varied but with a heightened expectation that the FDA will progress its rulemaking process regarding marketing of CBD products as dietary supplements. The current under-regulated CBD nutraceuticals market is highly oversupplied and experiences rapid consolidation. Additionally, COVID-19 factors continued to negatively impact sales, in particular in traditional retail / bricks & mortar channels.

To lead the US business transformation, a new leadership team was put in place in March led by Americas CEO and including a new VP of Finance and a new VP of Operations. In addition, Elixinol has invested in new sales leadership to drive the robust wellness channel, both online and offline. Throughout H1, FTE head count was reduced from 98 to 37 and thus contributing materially to the Company's overall reduction in quarterly cash outflows of \$8.3m comparing Q2 FY2020 to Q4 FY2019. The business has adequate inventory to support revenues for more than 12 months.

As a result of increased need for online shopping in the COVID-19 environment, online sales now represent approximately 50% of US revenues.

To maximise this channel, the Company has implemented a number of business process improvements, at the core of which is the sophisticated Magento e-commerce platform, which is continuously being refined. An inbound and outbound telemarketing function has been set up to provide a cost efficient and effective way of servicing customers.

Operations have continued to move towards a capital light model using readily available third-party manufacturing capacity thus further reducing operating cost.

Following three months (April – June) of stable revenues, July performance has been pleasing, exceeding internal forecasts and delivering growth over prior months.

On 11 May 2020, it was announced that a class action had been dismissed against Elixinol, LLC, a Colorado Limited Liability Company (EXU) The withdrawal of the class-action suit is vindication of the Company's position that its products are accurately labeled and that the plaintiffs' misleading conduct claims were without merit.

### Europe & UK

According to Brightfields April CBD report, Europe's CBD market reached US\$405 million in 2019 and is expected to grow to nearly US\$1.6 billion by 2025, with a five-year CAGR of 46%.

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The largest CBD markets in Europe today are those of the United Kingdom and Germany, each of which made up roughly a \$100 million market in 2019.

Both the European and UK Food Standards Agency announced on 13 February 2020 that those looking to market ingestible CBD products will have to submit an application for Novel Foods to keep products on shelves beyond March 2021. Recently the EU put the Novel Foods application process on hold while it evaluates its stance on CBD. This means that the status quo in the EU in which the business is currently operating remains unchanged for the time being whilst the EU confirms their CBD regulations. The UK's Food Standards Agency continues to move forwards with the Novel Foods authorisation process, and we are in the midst of continuing to manage the UK application process whilst awaiting the EU's ruling to move forward in mainland Europe.

Elixinol's efforts in the European market have predominantly been focused on the UK and German markets, with channel priorities being national pharmacy, in-home TV shopping and e-commerce. For the remainder of CY 2020, these new relationships are expected to drive significant growth. Progress in European TV shopping channels has been strong, and in June the Company has shipped its first order to Alliance Healthcare in the UK kickstarting the planned pharmacy distribution build. A range of 5 new Elixinol products will launch in August in the UK's 3<sup>rd</sup> biggest pharmacy chain, Well Pharmacy and distribution for our new elixinolSkin CBD skincare range has been secured for September with Boots (Ireland). All EU e-commerce sites have been transitioned to our new e-commerce platform Magento and Elixinol is fully focused on building out its European digital sales channels with highly targeted sales and marketing. An accomplished global Head of Digital Consumer Experience and E-Commerce has been recruited in the UK to accelerate our digital consumer transformation. A supply chain optimisation project has commenced with the aim to create a high quality, cost-effective and responsive value chain to bring our products to market.

### Australia

On 25 May 2020, Elixinol Global announced that the share purchase agreement (SPA) for the sale of Hemp Foods Australia was terminated by the buyer due to non-satisfaction of a condition precedent in the SPA, citing COVID-19 impacts. At the time the SPA termination was announced, the Company said it would continue to operate Hemp Foods Australia pending an evaluation of all opportunities to capitalise on Hemp Foods Australia's established position as one of Australia's leading hemp foods brands.

In H1 FY2020 the HFA business reported revenues of \$2.0m compared with \$1.6m in H1 FY2019. EBITDA losses have been significantly reduced to a loss of \$0.3m in H1 FY2020 compared with a loss of \$1.8m in full year FY2019. Given the improving financial performance and market dynamics, the Company announced on 20 July 2020 that it had decided to continue the Hemp Foods Australia operations, whilst exploring potential to leverage the cost base and skillset in Hemp Foods Australia to support opportunities emerging in the Australian cannabidiol landscape.



On 7 May 2020, Elixinol announced that it had sold the land owned by Nunyara Pharma Pty Ltd for \$2.6m. The cash proceeds from the sale are being redeployed to support Elixinol's branded CBD nutraceuticals strategy.

On 27 July 2020, the Company announced a major step forward in bringing Elixinol branded CBD products to market through an exclusive distribution agreement with PharmaCann. PharmaCann has reach into all major Australian pharmacy chains and has immediate access to a network of over 1600 medical practitioners. This agreement will enable Elixinol branded products to be brought to market under the TGA's existing Special Access Scheme. This agreement together with a strengthening Hemp Foods Australia business, from which the Group can leverage existing sales and marketing capability, will open up new opportunities for future growth.

#### Japan

Also post quarter, the Company was pleased to announce that it had signed a new exclusive trademark and know-how licensing agreement with Elixinol Japan, which will enable the Company to manufacture and distribute locally made products to meet market specific regulatory and consumer requirements. Under this agreement, Elixinol Global will receive royalties of 3% in the first year and 5% royalties in subsequent years of which a portion will be reinvested into the market to fuel further growth. This 2 + 3-year agreement allows Elixinol Global to continue to benefit from the brand equity that has been created in the Japanese market over the last five years.

#### **Corporate structure changes**

As announced on 6 April 2020, Founder and Non-Executive Director Mr Paul Benhaim became Chairman of the Board and Mr Oliver Horn, former CEO Swisse Wellness ANZ and North America was appointed Non-Executive Director. Chairman and Non-Executive Director Mr Andrew Duff and Non-Executive Director Mr Greg Ellery resigned from the Board.

As announced to the ASX on 21 April 2020, Elixinol appointed Mr Oliver Horn as Group CEO. Mr Horn has extensive global industry experience, leadership credentials and passion for wellbeing. Mr Horn replaced former Group CEO Mr Stratos Karousos.

In addition, Elixinol announced on 21 April 2020 the appointment of Mrs Helen Wiseman to the Elixinol Global Board as Non-Executive Director. Mrs Wiseman has extensive international experience in food, pharmaceutical, natural healthcare, professional services, energy, natural resources and manufacturing industries. Mrs Wiseman is an audit committee specialist for listed companies. As former partner of KPMG, and previously named as one of the 2014 Australian Financial Review and Westpac 100 women of influence, she brings diversity and seasoned governance skills to the board.

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### ASIC Relief

The Company is relying on the ASIC Corporations (Extended Reporting and Lodgement Deadlines – Listed Entities) Instrument 2020/451 dated 15 May 2020 (**ASIC Relief**) to extend the lodgement date for its reviewed half year accounts due to delays experienced with transitioning to a new auditor following the Company's Annual General Meeting on 30 July 2020. The Company will immediately make a further announcement to the market if it becomes aware that there will be a material difference between its unreviewed half year accounts and its auditor reviewed half year accounts.

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### About Elixinol Global

Elixinol Global Limited (ASX:EXL; OTC:ELLXF) is a global leader in the hemp derived CBD industry, innovating, marketing and selling hemp derived CBD products. The Companies simplified business model is focusing on:

- In the Americas, innovating, marketing and selling Elixinol branded hemp derived CBD products based in Colorado, USA
- In Europe & UK, educating, marketing and selling Elixinol branded and co-branded hemp derived CBD products based in Amsterdam, The Netherlands
- In Australia, providing stronger unified planning and support across the group to enable the various regional offices to focus on operational strategy and execution through its Global Executive Office based in Sydney, Australia
- Globally, expanding distribution of Elixinol branded hemp derived CBD products through reputable distributors as key markets open.

See more at [www.elixinolglobal.com](http://www.elixinolglobal.com)

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