

## ASX Announcement

17 August 2021

### **ELIXINOL WELLNESS LIMITED H1 FY21 RESULTS**

***Continued business optimisation delivers 53% EBITDA improvement and creates foundations for growth drivers***

#### Key Highlights

- Significantly improved Adjusted EBITDA result with H1 FY21 up 53% over H1 FY20, resulting from business optimisation efforts (and despite lower revenue)
- US business EBITDA improved, up 59% over H1 FY20. Elixinol Americas reports improving business performance, with Q2 FY21 revenue up 4% over Q1 FY21, and is on path to recovery from a decline versus H1 FY20
- Substantial operating cash improvement recorded, with \$6.9m used during the half year period (excluding non-recurring costs) down 54% on prior period (30 June 2020: \$15.2m)
- Well-funded with \$19m in cash to support organic and acquisitive growth, further cost optimisation underway
- Hemp Foods Australia Q2 FY21 revenue finished up 19% over Q1 FY21, led by newly gained national distribution and new export sales
- Group revenue for the period was \$4.8m, down 39% on the prior half year period (30 June 2020: \$7.9m)
- Prolonged COVID-19 related restrictions and regulatory uncertainty stifled UK CBD market – with Elixinol Europe revenue of \$0.3m, down 70% versus H1 FY20
- CannaCare acquisition terminated by mutual agreement, releasing approximately \$5.5m in otherwise committed cash

Elixinol Wellness Limited (**Elixinol** or the **Company**) (**ASX:EXL; OTCQB:ELLXF**) a global leader in the hemp derived food and CBD industry, innovating, and selling hemp derived food and CBD products, releases its Appendix 4D and Interim Report for the half year ended 30 June 2021 (H1 FY21).

Global CEO, Oliver Horn, commented *“Despite a highly challenging economic and regulatory environment, Elixinol Wellness has delivered the best half-yearly EBITDA result and highest margins since H1 2019 and continued to deliver on its strategy to build a consumer centric, high margin branded consumer goods company through the first half of the year.*

*We have worked hard to reposition the business for turn around and, as a result of enterprise-wide optimisation initiatives, are now in a strong position to capitalise on the improving US*

*market outlook and Hemp Foods Australia's dominant market position in the growing plant-based foods category. The UK remains challenging as a result of the uncertain regulatory environment and we are being prudent in our approach there – adjusting our investment levels and continually evaluating how best to deploy our efforts and capital.*

*We are especially delighted to have attracted crucial new leadership talent to accelerate our turnaround and deliver an aggressive new product development agenda.*

*With our tightly controlled and reducing cost base, healthy performing HFA business, improving US trading conditions and an optimised product range, we are feeling increasingly positive about our outlook.”*

### **Financial performance**

Elixinol reported H1 FY21 revenue from continuing operations of \$4.8m, down 39% on the prior period (\$7.9m in H1 FY20) with the revenue result impacted by the continued reduction of footfall into physical venues as a result of COVID-19 and by regulatory uncertainty stifling trade in the UK. The Group's simplified strategy to focus on higher margin branded consumer goods and e-commerce channels contributed to margins increasing to 52% in H1 FY21 compared with 37% in H1 FY20.

Operating expenses, excluding non-cash impairment charges and share-based payments, for H1 FY21 were \$10.0m, down 44% from \$17.7m in H1 FY20. A substantial cost reduction program has driven performance improvement across all business units and the Company moves into H2 FY21 well positioned, with an annualised cost base 44% lower than H1 FY20.

Adjusted EBITDA from continuing operations improved by 53% to a \$7.1m loss in H1 FY21, compared to the \$15.2m loss of H1 FY20. Net loss after tax was \$10.8m in H1 FY21, compared to the \$90.3m loss in H1 FY20.

In accordance with Accounting Standards, during the half year period the Company recorded non-cash impairment charges of \$2.6m (H1 FY20: \$69.0m) relating to inventory and fixed assets.

### **Positive outlook**

With the US CBD market stabilising, store traffic improving and the trend for CBD and plant-based products continuing, the Company expects the trading environment during H2 FY21 to be more positive.

New product launches and improved e-commerce capabilities will contribute to new revenue growth whilst cost will continue to be managed down as Elixinol completes the transition to a fully outsourced supply chain.

In the short-term, the Company will focus investment in the US and Australia whilst keeping a watching brief on the evolving UK landscape and regulatory process.

With product and brand development positioning the Elixinol and Hemp Foods Australia product ranges in line with consumer growth trends, new products coming to market, a healthy cash position and motivated leadership teams, the Company feels bullish about its outlook.

Elixinol finished the half well-funded with \$19.0m in cash to support its growth strategy.

### **Operations Update: Q2 FY21 (as per Q2 activities report released 22 July 2021)**

#### **Hemp Foods Australia update**

Hemp Foods Australia's growth trajectory continued to improve, with revenue up 19% (Q2 FY21: \$1,037k vs Q1 FY21: \$871k), led by newly gained national distribution, growth in export sales and solid ongoing e-commerce performance.

Through the quarter, a second Hemp Foods Australia product was listed in Costco for distribution. The 1.5kg Hemp Gold protein tubs are now being sold in all Costco stores across Australia and online, in addition to the Essential Hemp branded hemp seeds which have been ranged by all Costco stores across Australia since late last year.

Furthermore, a new Asian export customer for Hemp Foods Australia's Hemp Gold Seed Oil has been onboarded, further contributing to the quarter's growth profile.

On the back of continued investment in our digital capability, Hemp Food Australia's e-commerce channel has experienced continued growth, up 8% for the quarter and up 50% in comparison with Q1 FY20. All e-commerce metrics showed significant improvement throughout the quarter versus the prior quarter. Sessions were up 9%, units per order improved by 30%, conversion improved by 3%, transactions increased 12% and average order value improved by 4%.

The new premium Hemp Gold product range consisting of protein powder and oil is performing well, accounting for 16% of quarterly revenues and continues to gain new distribution.

On 9 June 2021, Elixinol appointed Health House International Limited (ASX: HHI) (**Health House**) as exclusive distributor for its medicinal cannabis products formulated for the Australian pharmacy channel. The Distribution Agreement, with a two-year term, will expand Elixinol's reach into Australian doctors and 5,700 pharmacies and is aimed at providing products under the Therapeutics Goods Administration's (**TGA**) Special Access Scheme.

This agreement delivers on the Company's strategy to create a global wellness business by accessing the growing Australian market and utilising the Hemp Foods Australia business and corporate head office capabilities to grow the local business.

In light of the Health House Agreement, Elixinol decided to terminate its distribution agreement with PharmaCann Pty Ltd announced to the market on 27 July 2020.

#### **Americas business grows as reset continues**

In April 2021, Rob Hasselman was appointed as President Americas bringing with him 16 years of sales and marketing experience with Johnson & Johnson and was more recently Chief Marketing Officer at Ecofibre and VP of Sales for Present Life.

The Elixinol Americas business showed modest improvement through the quarter, up 4% (Q2 FY21: \$1,302k vs Q1 FY21: \$1,248k). Factors driving growth included the opening of bricks and mortar retail distribution and e-commerce performance.

E-commerce represented 59% of Americas revenues and delivered robust performance improvements throughout the quarter. As the result of improvements in driving better quality traffic to the Elixinol website and up-selling activities, customer conversion rates improved by 57% to 6.8% and average order value increased 5% compared to the prior quarter to US\$126 per transaction. Continued optimisation of the user experience also resulted in a 32% reduction in bounce rate<sup>1</sup> and averaged 29% throughout the quarter (<40% is considered excellent). Site visitors spent on average over three minutes on the [www.elixinol.com](http://www.elixinol.com) website which was a 37% improvement versus the prior quarter.

Significant progress was also made in further reducing operating costs throughout the quarter. A new organisational structure was implemented which is expected to generate a further \$1.6m of annualised savings over the recent major cost-out program.

Throughout the quarter the Americas business also progressed the transition towards a fully outsourced supply and capital light model which is expected to be completed by Q1 FY22. In line with the strategy to transition towards a capital light, higher margin branded consumer goods model, Elixinol Americas is now operating on a much lower cost base with increased margins leading to significant profitability improvements. The reset Americas business is now under new leadership, has a robust e-commerce baseline trend emerging, and further supply chain optimisation initiatives are on foot to contribute to an overall improving outlook.

Recent market data shows an improving market and category outlook. Although the CBD category has not yet returned to pre-pandemic levels, we do see an increasing consumer acceptance and use of CBD products combined with improving retail foot traffic. Additionally, multiple congressional bills are in process to accelerate positive regulatory change.

### **Regulatory uncertainty stifles UK CBD market**

After a stronger end to the March quarter, dynamics in the UK shifted again during Q2 FY21, driven by a stalled UK regulatory process creating uncertainty for CBD products.

As previously announced, the Company, under its European Industrial Hemp Association (EIHA) Novel Food consortium membership, successfully submitted its Novel Food Application allowing products to remain in distribution whilst the UK Food Safety Authority (FSA) processes applications. Despite industry expectations, the FSA has not been able to process Novel Food Application submissions leaving brands and retail customers uncertain which products will be able to remain in distribution. Feedback from major UK retailers through the period has highlighted a reluctance to place replenishment orders or consider new listings until the FSA publishes a list of authorised CBD products.

As a result of long-suppressed trading periods due to COVID-19 and the lack of regulatory clarity in the UK, a glut of competitor products is now available at clearance pricing. This also led to Holland & Barrett to discontinue the product range of our largest UK based private label customer. These reasons led to the European business reporting lower revenues for the quarter (Q2 FY21: \$117k versus Q1 FY21: \$215k).

<sup>1</sup> Bounce rate is where a website user exits after viewing only a single page.

The Company will continue to engage with the FSA through this process via the EIHA consortium and hopes to see the regulatory landscape become clearer in the near term. Elixinol Europe is taking action by reducing consumer price points and lowering operating costs to navigate through this challenging period.

### **CannaCare acquisition mutually terminated**

On 29 June 2021, it was announced that Elixinol Wellness and the shareholders of CannaCare Health GmbH had mutually agreed to terminate the acquisition originally proposed and announced via the ASX on 15 March 2021.

The Termination and Withdrawal Agreement provides for the parties to be mutually released from any claims and obligations in connection with the Share Purchase Agreement and its termination.

### **Elixinol changes its name**

On 17 May 2021, the Company announced it would change its name to Elixinol Wellness, representing its evolution to a global, natural health and wellness consumer products business. The new name will be implemented across the Company's wholly owned subsidiaries throughout the 2021 calendar year.

This document was authorised to be given to the ASX by the Board of the Company.

### **Investor relations please contact:**

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### **About Elixinol Wellness**

Elixinol Wellness Limited (ASX:EXL; OTCQB:ELLXF) is a global leader in the hemp industry, innovating, marketing and selling hemp derived nutraceutical, cosmetic and food products. The Company's simplified business model is focusing on:

- In the Americas, innovating, marketing and selling high quality Elixinol branded hemp derived nutraceutical and topical products based in Colorado, USA
- In Europe and the UK, educating and selling high quality Elixinol branded and co-branded hemp derived nutraceutical and skincare products based in Utrecht, The Netherlands and London, UK
- In Australia, Hemp Foods Australia is a leading hemp food wholesaler, retailer, manufacturer and exporter of bulk and finished products
- Across the Rest of World, expanding distribution of Elixinol branded hemp derived products through reputable distributors as key markets open.

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