

ASX Announcement

31 January 2022

Q4 FY21 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C

Elixinol Wellness delivers stable revenues and commences strategic review to maximise shareholder value

Key Highlights

- Q4 FY21 revenue of \$2.3m¹, in line with prior quarter (Q3 FY21: \$2.3m), due to declines in US retail, COVID-19 impacts and industry headwinds, offset by growth in Hemp Foods Australia
- Operating cash used during Q4 FY21, excluding non-recurring items, was \$3.0m, a slight increase on the prior quarter (Q3 FY21: \$2.9m) (due to raw material purchases for Hemp Foods Australia necessary to ensure supply chain continuity and to support growth) and representing a 21% improvement compared with \$3.8m in the prior corresponding period (PCP)
- Well-funded with \$12.6m in cash and an additional \$1.9m expected from US Employee Retention Credits, leaving the Company with approximately five quarters of funding on a historical run rate basis
- Hemp Foods Australia revenue up 6% over Q3 FY21, led by continued growth in Costco; third consecutive quarter of growth despite COVID-19 impacts
- Elixinol Americas' revenue 7% lower over Q3 FY21, due to depressed retail spending amid rising Omicron infections
- The Company signed exclusive licensing agreement with market leading UK manufacturer BRITISH CANNABIS™; first licensing revenue received from Japan
- The Board of Elixinol Wellness commences strategic review to maximise shareholder value which will include consideration of merger, sale or other options for the Company as a whole or its business units

Elixinol Wellness Limited (**Elixinol Wellness** 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 Quarterly Activities Report and Appendix 4C cash flow report for the quarter ended 31 December 2021 (**Q4 FY21**).

¹ All dollar amounts are in AUD unless otherwise stated; Average AUD/USD for Q4 FY21 = 0.7285; FY21 financials are unaudited.



Global CEO, Oliver Horn, commented: *“The December quarter contained many highlights, including growth continuation for Hemp Foods Australia and strong early performance from our new US e-commerce site. We entered into a three-year exclusive Trademark and Know-How Licensing Agreement with BRITISH CANNABIS™ and are excited about the potential in that agreement.*”

Our US business has continued to operate in a challenging environment with the overall CBD market remaining depressed. In contrast, Hemp Foods Australia and the plant-based food sector continues to perform well.

As shareholders would be aware, for several quarters now the Board has been carefully assessing our path to profitability. Today we are announcing the start of a strategic review process with the aim to accelerate our path to profitability and maximise shareholder value. This review will include exploring and considering merger or sale options of all or parts of the Group.

We’ve been through a large-scale transformation process and created a well-funded and leaner consumer products wellness company with strong brands that are positioned in long-term growth categories.

Building on the transformational work done throughout 2021, we are now taking the next well considered and courageous steps to improve shareholder value by evaluating all strategic options that provide larger-scale cost synergies.

Throughout the strategic review process, we will remain focused on executing our operating plans and improving overall Group operational performance, while further reducing cost by completing the US supply chain outsourcing project.

We look forward to updating our shareholders as we make progress.”

The Company reported revenue of \$2.3m for Q4 FY21, in keeping with the prior quarter (Q3 FY21 \$2.3m), due to declines in US retail, offset by growth in Hemp Foods Australia.

Operating cash used during Q4 FY21 excluding non-recurring items was \$3.0m, a slight increase on the previous quarter (Q3 FY21: \$2.9m) and a 21% improvement compared with PCP (Q4 FY20: \$3.8m). The minor increase in cash outflows was due to investment required to minimise COVID-19 related supply chain impacts and ensure uninterrupted access to Australian hemp seeds to support Hemp Foods Australia’s growth.

The Company finished the quarter well-funded with \$12.6m in cash and an additional \$1.9m expected from US Employee Retention Credits. With a steadily reducing cost base and with more optimisation initiatives on foot, including the Employee Retention Credits, the Company has approximately five quarters of funding on a historical run rate basis.

Hemp Foods Australia update

Hemp Foods Australia's growth trajectory continued to improve, with revenue up 6% (Q4 FY21: \$1,121k vs Q3 FY21: \$1,057k), led by national distribution gains including continued growth in Costco.

Q4 was Hemp Foods Australia's strongest quarter for FY21, with gains led by recent distribution growth in Woolworths and Costco. Hemp Foods Australia also finished FY21 with significant gross margin improvement following continued portfolio optimisation and discontinuation of several unprofitable product lines. The focus on margin accretion through shifting to higher margin branded consumer goods and continued growth in Hemp Foods Australia's direct to consumer e-commerce business resulted the stronger gross margins which ended FY21 at 34%, up from 27% in FY20.

During the quarter Hemp Foods Australia also shipped its new hemp-paste product which is a versatile health food ingredient to create hemp-based food products such as ice creams or plant-based milks and has a variety of other applications. Hemp Foods Australia's hemp paste is now being used in a range of ice creams which are vegan, low in sugar, high in protein and hemp milk based.

Americas business transformation continues

The Elixinol Americas business showed a revenue decline through the quarter, down 7% (Q4 FY21: \$1,074k vs Q3 FY21: \$1,159k), due to depressed traditional retail spending amid rising Omicron infections whilst the CBD category continued to face over-supply challenges.

The continued business transformation towards a leaner, more capital light and e-commerce driven branded consumer wellness business saw significant progress throughout the quarter.

In October Elixinol Americas successfully transitioned to a more consumer friendly, lower cost and better performing Shopify e-commerce platform. The new e-commerce site showed strong performance improvements with 72% growth in user sessions and transaction growth of 25% versus prior quarter. The quarter further saw the launch of a subscription model which accounted for 12% of quarterly revenues and the launch of a loyalty points scheme to strengthen recurring revenues.

The transition to a fully outsourced supply chain neared completion in the quarter with in-house warehousing and fulfilment on track to move to a third-party model in Q1 2022 which will result in further enduring operating cost efficiencies.

In line with Elixinol America's aggressive new product development strategy, Q4 also saw the release of the new Extra Strength Daily Balance capsules retailing at RRP US\$119.99 which accounted for 10% of e-commerce revenues throughout the quarter and which have become a bestselling product. New product launches for the Sleep Rapid Reset liposomes with CBD and CBG and Sleep THC Free² Gummies were planned for the quarter but had to be moved to January 2022 due to supply chain challenges.

The US regulatory environment is evolving favourably. Two Congressional Bills have strong bi-partisan support ([H.R. 841](#) and [S. 1698](#)), with one expected to pass in FY2022. Assembly Bill 45 (**AB45**) was signed into law by California Governor, Gavin Newsom on 6 October 2021. This has established a comprehensive regulatory framework for the manufacture and retail sale of products in California containing hemp derived cannabidiol (**CBD**), including dietary supplements, topicals, over-the-counter, and pet products, among others. This is a very positive development for reputable hemp derived CBD product providers like Elixinol Americas. California is one of the largest CBD markets in the US with many retailers and consumers seeking to enjoy the benefits of high quality and safe CBD products. This Bill is expected to create new trade opportunities between Elixinol Americas and major retailers, who were previously seeking clear regulatory guidance at the state level.

During the quarter, Elixinol Americas lodged another application for refundable tax credits which were made available under the Coronavirus Aid, Relief, and Economic Security Act (**CARES Act**). The value of the credits calculated through to 31 December 2021 totals approximately \$1.9m (US\$1.4m). Due to an extensive processing backlog at the Internal Revenue Service (**IRS**) no cash has yet been received and the total \$1.9m is now expected to be received in FY22.

Elixinol Wellness signs three-year license agreement with BRITISH CANNABIS™ for UK distribution

In December 2021, Elixinol Wellness entered into a three-year exclusive Trademark and Know-How Licensing Agreement with CBD Health Foods Ltd, trading as BRITISH CANNABIS™, to manufacture, market and sell CBD products across the UK.

The agreement followed Elixinol Wellness' decision on 16 September 2021 to cease trading in the UK and EU markets, and instead move to an indirect route to market by seeking a licensing partner in the UK. This was due to the continued uncertainty with the regulatory environment in these markets and the Company's strategic focus on driving profitability.

The new agreement between Elixinol Wellness and BRITISH CANNABIS™ enables the Elixinol brand to continue to be distributed in the UK whilst realising significant cost savings through cessation of direct UK operations.

² THC Free means testing conducted to 0.01%. Testing method and detection limits vary depending on the tests conducted.

BRITISH CANNABIS™ is the most established manufacturer and distributor of branded and white label CBD products in the UK.

The BRITISH CANNABIS™ Cannabidol brand is a widely distributed brand in UK pharmacies, demonstrating the company's credentials and capability to build brands in sophisticated retail channels. BRITISH CANNABIS™ manufacturing capability also enables the manufacture of Elixinol branded products in the UK, creating a more efficient supply chain solution.

Through the partnership with BRITISH CANNABIS™, UK consumers will now continue to be able to buy their favorite Elixinol branded products, following many years of brand-building in the UK market.

Elixinol Wellness commences strategic review

The Board of Elixinol Wellness has commenced a strategic review with the objective of maximising shareholder value. The Group has engaged financial advisors Greenhill & Co. Australia Pty Limited (**Greenhill**) to assist with the strategic review which will include consideration of merger, sale or other options for the Company as a whole or its business units.

The Board believes the Company is well positioned with strong brands in long-term consumer growth categories. The outlook for the CBD industry globally remains strong and its Elixinol range, with strong brand equity, and established relationships with distribution and/or licensing agreements in many parts of the world, including the United Kingdom, South Africa, Japan, Malaysia, Brazil and Mexico, is well placed to capitalise on the opportunities in the global market. Equally, Hemp Foods Australia enjoys a first mover advantage in a growth category, continues a sustained growth trajectory and is already nearing profitability.

However, given recent prices at which Elixinol Wellness shares have traded on the ASX, the Board believes the business is undervalued and, in this context, is commencing the strategic review with a view to maximising value for all Elixinol Wellness shareholders.

There is no certainty that the strategic review will lead to any particular outcome or transaction. Elixinol Wellness shareholders do not need to take any action in relation to the strategic review. Elixinol Wellness will continue to keep shareholders informed about the progress and outcomes of the strategic review in accordance with Elixinol Wellness' continuous disclosure obligations.

Appendix 4C commentary

During the quarter the Company reported operating cash expenditures excluding non-recurring items of \$5.2m, flat compared with the previous quarter (Q3 FY21: \$5.2m) and a

27% reduction vs PCP (Q4 FY20: \$7.1m). These expenditures were directed towards shifting revenues to direct to consumer channels and expanding its e-commerce capabilities, new product development and brand building, and expanding traditional retail distribution (in particular, in Australia via Hemp Foods Australia). The expenditures were incurred across the Company's business segments as follows: Americas \$2.7m, Europe \$0.4m, Australia \$1.4m and Corporate \$0.7m.

The Company also incurred non-recurring costs through the quarter of \$0.3m of severance costs which primarily relate to the restructuring of the European organisation.

The Company reported payments to related parties totalling \$146,000. These payments comprise non-executive director fees and executive director remuneration.

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 skincare products based in Colorado, USA
- In Australia, Hemp Foods Australia is a leading hemp food wholesaler, retailer, manufacturer and exporter of bulk and branded raw materials, and finished products
- In the United Kingdom, South Africa, Japan, Malaysia, Brazil and Mexico, Elixinol branded products are available to consumers via exclusive Distribution and/or Trademark and Know-How Licensing Agreements
- 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

Appendix 4C

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

Name of entity

Elixinol Wellness Limited

ABN

34 621 479 794

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,290	9,650
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,603)	(5,510)
(c) advertising and marketing	(599)	(2,778)
(d) leased assets	(33)	(242)
(e) staff costs	(2,047)	(8,951)
(f) administration and corporate costs	(970)	(4,993)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	10	51
1.5 Interest and other costs of finance paid	(30)	(92)
1.6 Income taxes paid/(received)	7	36
1.7 Government grants and tax incentives	77	354
1.8 Other – non-recurring transaction and severance costs	(322)	(1,596)
1.9 Net cash from / (used in) operating activities	(3,220)	(14,071)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(8)	(160)
(d) investments	-	-
(e) intellectual property	(2)	(132)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	64	464
(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	-	-
2.6 Net cash from / (used in) investing activities	54	172

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	(110)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(306)	(1,047)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other	-	-
3.10 Net cash from / (used in) financing activities	(306)	(1,157)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	16,135	27,743
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,220)	(14,071)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	54	172

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(306)	(1,157)
4.5	Effect of movement in exchange rates on cash held	(14)	(38)
4.6	Cash and cash equivalents at end of period	12,649	12,649

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	12,649	16,135
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)	12,649	16,135

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	146
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>		

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	--
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities		-
7.5 Unused financing facilities available at quarter end		-
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.		
N/A		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(3,220)
8.2 Cash and cash equivalents at quarter end (item 4.6)	12,649
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	12,649
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.90
<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: N/A	
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: N/A	
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: N/A	
<i>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.</i>	

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 2022

Authorised by: The Board
 (Name of body or officer authorising release – see note 4)

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.