

# Elixinol Wellness Limited

(ASX: EXL / OTC: ELLXF)

## Ramping Up Revenue While Slashing Costs

**BUY**

Current Price: A\$0.02

Fair Value: A\$0.06

Risk\*: 4

Sector/Industry: Healthcare / Personal Products

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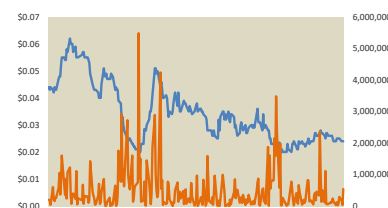
### Highlights

- In 2022, revenue fell 24% YoY to \$7.1M, but **beat our estimate by 8%**. Revenue declined as the company discontinued in-house manufacturing, and production for third parties. As a result, EXL was able to lower G&A expenses by 35% YoY, and **improve EBITDA from -\$14M to -\$9M vs our estimate of -\$11M**.
- We remain impressed with the company's wide range of product offerings, extensive distribution channels, and global presence. **Australia and the U.S. are EXL's primary target markets.**
- In Australia, its products are available in **Costco (NASDAQ: COST)**, large retailers such as **Woolworths (ASX: WOW)** and **Coles (ASX: COL)**, and several leading health food stores and supermarkets. In the U.S., products are mainly distributed through **CVS (NYSE:CVS)** and CBD Emporium.
- We believe EXL has to grow its revenue, and/or continue cutting costs to achieve profitability. Management is planning to launch several new products this year. We expect EBITDA to turn positive in 2026, and **believe the company will have to raise \$2.5M this year for working capital.**
- In order to grow revenue, in late 2022, EXL announced its plans to acquire a hemp company in Australia for \$4M. **We believe this deal is positive for EXL**, not just because the acquisition price is attractive (see pages three and four), but also because EXL will be able to access TSN's distribution network, and enter the pet food business. We believe this transaction **should allow EXL to increase its revenue by approximately 50%**.
- It is estimated that the U.S. CBD market will grow by 25% p.a. from 2021 to 2026 (Source: Statista), and the Australian CBD market will grow by 33% p.a. from 2021 to 2028 (Source: Grand View Research). However, last month, Hong Kong banned CBD, and the **U.S. Food and Drug Administration (FDA) stated that CBD raises several safety concerns**. The FDA also stated that it is open to working with Congress to regulate CBD products. We believe these developments have increased sector related risk and uncertainties.
- Upcoming catalyst** include closing of the TSN acquisition.

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Analyst

### EXL Price and Volume



	YTD	12M
EXL	20%	-45%
ASX	5%	4%

### Company Data

52-Week Range	A\$0.019 - \$0.063
Shares O/S	316M
Market Cap.	A\$8M
Current Yield	N/A
P/E (forward)	N/A
P/B	0.8x

### Key Financial Data (A\$)

YE Dec 31	2022	2023E	2024E
Cash	2,864,000	665,097	1,072,858
Working Capital	5,872,000	4,575,397	5,766,003
Total Assets	13,485,000	10,813,179	11,754,329
Total Debt	570,000	570,000	570,000
Revenue	7,055,000	10,726,032	13,798,210
Net Income	-10,571,000	-6,590,636	-3,643,404
EPS	-0.03	-0.01	-0.01

\*See last page for important disclosures, rating, and risk definitions. All figures in A\$ unless otherwise specified.

## Financials

STATEMENT OF OPERATIONS (A\$)						
Y/E 31 December	2021	2022	YoY	H2-2021	H2-2022	YoY
<b>Revenue</b>	<b>\$9,338,000</b>	<b>\$7,055,000</b>	<b>-24%</b>	<b>\$4,548,000</b>	<b>\$3,839,000</b>	<b>-16%</b>
Gross Profit	\$4,896,000	\$3,238,000	-34%	\$2,386,000	\$1,753,000	-27%
SG&A Expense	\$13,380,000	\$8,650,000	-35%	\$6,603,000	\$3,321,000	-50%
<b>EBITDA</b>	<b>-\$14,119,000</b>	<b>-\$9,281,000</b>	<b>-34%</b>	<b>-\$6,299,000</b>	<b>-\$3,638,000</b>	<b>-42%</b>
<b>Adjusted Net Profit (Loss)</b>	<b>-\$13,160,000</b>	<b>-\$9,551,000</b>	<b>-27%</b>	<b>-\$9,829,000</b>	<b>-\$4,551,000</b>	<b>-54%</b>
EPS	-\$0.05	-\$0.03	-38%	-\$0.04	-\$0.01	-60%

Revenue fell 24% YoY, as EXL discontinued production for third-parties

G&A expenses were down 35% YoY

EBITDA improved YoY, from -\$14M to -\$9M

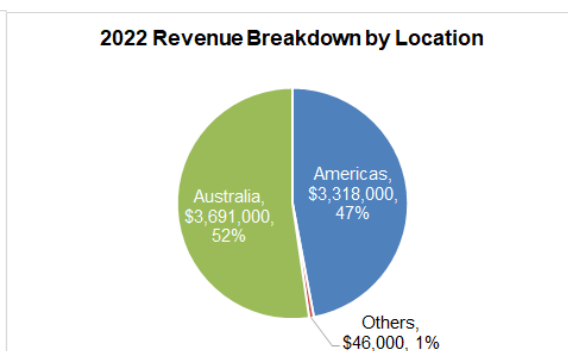
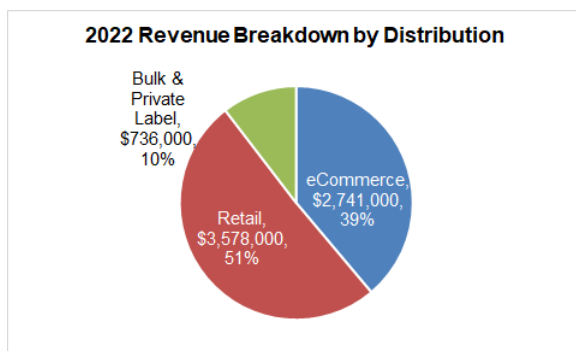
In 2022, EXL spent 21% of revenue on marketing; we note that comparables typically spend 15%-35% of revenue on marketing

Gross margins declined as EXL started using third-party manufacturers

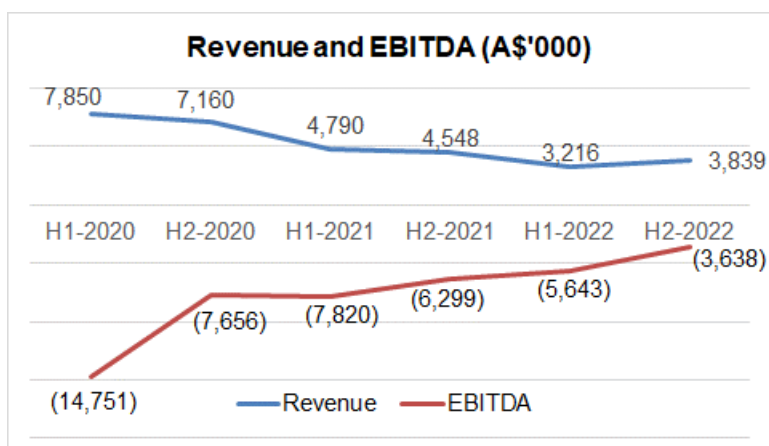
Yet to break-even, but EBITDA has been improving

EXL has to increase revenue, and/or continue cutting costs to achieve profitability

	2021	2022	Change
Americas	\$4,783,000	\$3,318,000	-31%
Others	\$469,000	\$46,000	-90%
Australia	\$4,086,000	\$3,691,000	-10%
<b>Total Revenue</b>	<b>\$9,338,000</b>	<b>\$7,055,000</b>	<b>-24%</b>



Margins	2021	2022	H1-2022	H2-2022	Sector
Gross	52%	46%	46%	46%	48%
SG&A	143%	123%	166%	87%	37%
Marketing expense	33%	21%	26%	17%	



Source: Company / S&P Capital IQ

FCF improved as well

Strong balance sheet, with \$6M in working capital, accounting for 75% of EXL's MCAP of \$8M

Summary of Cash Flows	2021	2022
Operating	-\$14,071,000	-\$8,152,000
Investing	\$172,000	-\$869,000
Financing	-\$1,157,000	-\$757,000
<b>Net</b>	<b>-\$15,056,000</b>	<b>-\$9,778,000</b>
<b>Free Cash Flows to Firm (FCF)</b>	<b>-\$13,899,000</b>	<b>-\$9,021,000</b>

Liquidity & Capital Structure	2021	2022	Sector
<b>Cash</b>	<b>\$12,649,000</b>	<b>\$2,864,000</b>	
Working Capital	\$14,873,000	\$5,872,000	
Current Ratio	4.15	2.71	1.90
LT Debt	\$250,000	\$250,000	
<b>Total Debt</b>	<b>\$678,000</b>	<b>\$570,000</b>	
LT Debt / Capital	3.6%	6.2%	10.1%
Total Debt / Capital	1.3%	2.7%	19.2%

Source: Company / S&P Capital IQ

## TSN Acquisition

TSN manufactures and distributes a wide range of hemp products in Australia. In the 12 months ended June 2022, **TSN generated \$3.4M in revenue**, \$1.4M in gross profit, and -\$4.9M in EBITDA. The acquisition price reflects an EV/R of 1.2x vs the sector average of 3.3x (Source: S&P Capital IQ), **implying a 64% discount**.

In November 2022, EXL announced plans to acquire The Sustainable Nutrition Group (TSN) for A\$4M, by issuing 135M shares

TSN has an extensive distribution network, and owns four brands (including one targeting pets)

Management estimates \$6.6M in cost synergies



- Launched in September 2020
- Plant based challenger food brand
- Distribution agreements with Woolworths (Baking Products)

- Launched in June 2021
- Innovative pet brand
- Distribution into Australian retailers
- Direct to consumer channel also growing

- Market leader in native & indigenous ingredients. HACCP certified
- Sourced directly from indigenous communities across Australia
- Growing and production is sustainable and traceable
- Exports into the US and South Korea

- Traditional hemp ingredients business
- Innovative new products (Isolate & Concentrate) in late-stage development
- Long term supply contracts with farmers
- First orders with Harris Farms, Costco in H1 FY23

Source: Company

**We believe this deal is positive for EXL**, not just because the acquisition price is attractive, but also because EXL will be able to access TSN's distribution network, and enter the pet food business. We believe this transaction should allow EXL to increase its revenue by approximately 50%.

## FRC Projections and Valuation

*As a result of the TSN acquisition, we are raising our revenue and EPS forecasts*

	2023 Old	2023 New	Introducing 2024E
Revenue	8,727,419	10,726,032	13,798,210
EBITDA	(6,667,623)	(5,066,836)	(3,019,494)
Net Income	(7,480,723)	(6,590,636)	(3,643,404)
EPS	(0.02)	(0.01)	(0.01)

*Our DCF valuation declined from \$0.12 to \$0.08/share, due to share dilution from the TSN acquisition*

DCF Model	2023E	2024E	2029E	2030E	Terminal
EBIT(1-tax)	(5,066,836)	(3,019,494)	7,322,001	7,629,573	
Non-Cash Expenses	648,900	584,010	344,852	310,367	
Change in Working Capital	(902,300)	(782,845)	(607,169)	(648,306)	
Cash from Operations	(5,320,236)	(3,218,329)	7,059,684	7,291,633	
CAPEX	(250,000)	(250,000)	(250,000)	(250,000)	
Free Cash Flow	(5,570,236)	(3,468,329)	6,809,684	7,041,633	
Present Value	(4,951,321)	(2,740,408)	2,985,790	2,744,437	29,755,473
Discount Rate	12.5%				
Terminal Growth	3.0%				
Present Value	31,019,522				
Cash - Debt	4,594,000				
Fair Value	35,613,522				
Shares O/S	451,265,571				
<b>Value per Share (A\$)</b>	<b>\$0.08</b>				

Source: FRC

*The average EV/R of comparables declined 13% since our previous report in September 2022*

*As a result, our comparables valuation declined from \$0.06 to \$0.04 per share; our valuation was also impacted by share dilution*

Comparable Companies	EV/Rev
CV Sciences Inc.	0.42
<b>Elixinol (2025E)</b>	<b>0.51</b>
Charlotte's Web Holdings, Inc.	0.74
Ayr Wellness Inc.	1.17
Jushi Holdings Inc.	1.27
Marimed Inc.	1.47
Columbia Care Inc.	1.46
Canopy Growth Corp.	4.72
<b>Personal Products Sector</b>	<b>3.30x</b>
<b>Average Market Multiples (excluding outliers)</b>	<b>1.01x</b>
<b>Elixinol's Premium/(Discount)</b>	<b>-49%</b>

Source: FRC / S&P Capital IQ

The average of our DCF and comparables valuations is \$0.06/share (previously \$0.09/share)

Valuation Method	Fair Value per Share (\$)	Weight
DCF Valuation	\$0.08	50.0%
Fair value per share (\$) - Average EV/R Multiple (2025E)	\$0.04	50.0%
<b>Fair Value Estimate (\$)</b>		<b>\$0.06</b>

Source: FRC

We are maintaining our **BUY rating, and lowering our fair value estimate from \$0.09 to \$0.06 per share. Upcoming catalysts** include closing of the TSN acquisition. In 2023, we are expecting revenue to grow by 29% YoY, and EBITDA to improve from -\$9M to -\$5M. We believe the company’s future prospects are highly dependent on management’s ability to keep growing revenue, while cutting costs.

**Risks**

We believe the company is exposed to the following key risks (not exhaustive):

- Operates in a highly regulated industry subject to government intervention
- No guarantee that the company will be able to stay competitive
- **EBITDA yet to be positive**
- Product recall risk
- Hefty marketing budgets are critical for growth

Maintaining our risk rating of 4



## Appendix

<b>STATEMENTS OF OPERATIONS (A\$)</b>			
<b>YE December 31</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
Revenue	7,055,000	10,726,032	13,798,210
<b>Total Revenues</b>	<b>7,055,000</b>	<b>10,726,032</b>	<b>13,798,210</b>
COGS	3,817,000	5,834,962	6,761,123
<b>Gross Profit</b>	<b>3,238,000</b>	<b>4,891,071</b>	<b>7,037,087</b>
G&A	8,650,000	6,520,800	6,209,195
Marketing expenses	1,478,000	2,145,206	2,759,642
Professional fees	2,150,000	1,075,000	860,000
Share-based expenses	241,000	216,900	227,745
<b>EBITDA</b>	<b>(9,281,000)</b>	<b>(5,066,836)</b>	<b>(3,019,494)</b>
D&A	721,000	648,900	584,010
<b>EBIT</b>	<b>(10,002,000)</b>	<b>(5,715,736)</b>	<b>(3,603,504)</b>
Net financing expense	49,000	39,900	39,900
Other Income	(502,000)		
<b>EBT</b>	<b>(9,549,000)</b>	<b>(5,755,636)</b>	<b>(3,643,404)</b>
Income tax expense	2,000	-	-
Unusual/Non-recurring expense	1,020,000	835,000	
<b>Net Income (Net Loss)</b>	<b>(10,571,000)</b>	<b>(6,590,636)</b>	<b>(3,643,404)</b>
EPS	(0.0334)	(0.0146)	(0.0081)
<b>BALANCE SHEET (A\$)</b>			
<b>YE December 31</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
<b>Assets</b>			
Cash	2,864,000	665,097	1,072,858
Receivables	3,974,000	4,955,211	5,450,732
Inventories	1,740,000	2,728,000	3,000,800
Prepays and other current assets	734,000	990,771	1,089,848
<b>Current Assets</b>	<b>9,312,000</b>	<b>9,339,079</b>	<b>10,614,239</b>
PP&E	375,000	(23,900)	(357,910)
Intangible assets	152,000	152,000	152,000
Right of Use Assets	737,000	737,000	737,000
Investments	2,826,000	526,000	526,000
Other Non-current Assets	83,000	83,000	83,000
<b>Total Assets</b>	<b>13,485,000</b>	<b>10,813,179</b>	<b>11,754,329</b>
<b>Liabilities &amp; Shareholders' Equity</b>			
Payables and accrued liabilities	1,377,000	2,527,343	2,577,890
Contract Liabilities	22,000	22,440	22,889
Accruals	808,000	824,160	840,643
Lease Liabilities	697,000	853,739	870,814
Borrowings	320,000	320,000	320,000
Other Current Liabilities	216,000	216,000	216,000
<b>Current Liabilities</b>	<b>3,440,000</b>	<b>4,763,682</b>	<b>4,848,236</b>
Borrowings	250,000	250,000	250,000
Lease Liabilities	637,000	732,133	732,133
<b>Total Liabilities</b>	<b>4,327,000</b>	<b>5,745,815</b>	<b>5,830,369</b>
Equity	218,122,000	220,622,000	225,122,000
Additional paid in capital and Other Reserves	9,682,000	9,682,000	9,682,000
Deficit	(218,646,000)	(225,236,636)	(228,880,040)
Non-controlling interest			
<b>Total Liabilities and Shareholder's Equity</b>	<b>13,485,000</b>	<b>10,813,179</b>	<b>11,754,329</b>

<b>STATEMENTS OF CASH FLOWS (A\$)</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
<b>YE December 31</b>			
<b>Operating Activities</b>			
Net loss for the period	(10,571,000)	(6,590,636)	(3,643,404)
<b>Items not involving cash</b>			
D&A	721,000	648,900	584,010
Impairment expenses & bad debts	1,084,000		
Other non-cash adjustments	193,000		
Share-based compensation	241,000		
<b>FFO</b>	<b>(8,332,000)</b>	<b>(5,941,736)</b>	<b>(3,059,394)</b>
Prepaid expense	552,000	(256,771)	(99,077)
Inventory	227,000	(988,000)	(272,800)
Receivables	144,000	(981,211)	(495,521)
Accounts payable and accrued liabilities	(1,032,000)	1,166,503	67,030
Others	289,000	157,179	17,524
<b>Changes in WC</b>	<b>180,000</b>	<b>(902,300)</b>	<b>(782,845)</b>
<b>Cash from (used in) Operations</b>	<b>(8,152,000)</b>	<b>(6,844,036)</b>	<b>(3,842,239)</b>
<b>Financing activities</b>			
Equity		2,500,000	4,500,000
Debt		95,133	-
Lease	(757,000)		
<b>Cash provided by Financing Activities</b>	<b>(757,000)</b>	<b>2,595,133</b>	<b>4,500,000</b>
<b>Investing activities</b>			
PP&E	286,000	(250,000)	(250,000)
Others	(1,155,000)	2,300,000	-
<b>Cash used in Investing Activities</b>	<b>(869,000)</b>	<b>2,050,000</b>	<b>(250,000)</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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