

**ASX Announcement**  
**27 February 2023**

***Ongoing business optimisation drives 26% improvement  
in Adjusted EBITDA over prior year;  
Strategic review leads to refined focus and proposed  
acquisition of The Sustainable Nutrition Group Ltd***

**Key highlights**

- Further business optimisation efforts drive \$2.6m / 26% improvement in Adjusted EBITDA, from -\$11.5m in FY21 to -\$8.5m in FY22
- Business transformation drives \$6.5m in operating cost reduction with further cost reduction initiatives currently underway
- Elixinol Americas business profitability improves, achieved by transition to an outsourced capital light model, reduction in operating expenditures and a further shift towards higher margin consumer channels, such as e-commerce
- Elixinol Americas loyalty program continues to exceed expectations delivering \$0.4m in revenue in FY22
- Elixinol Wellness announced it will implement schemes of arrangement with The Sustainable Nutrition Group Ltd (ASX: TSN) (TSN) to acquire 100% of TSN's ordinary shares and effect an exchange of options; acquisition to increase the size and scale of Elixinol Wellness and result in the Group owning and operating brands across four key verticals
- Elixinol Wellness was successful in its arbitration proceedings against the shareholders of German company CannaCare Health GmbH, with the Arbitration Award of approximately \$0.8m made in the Company's favour.
- In addition to the cash held on 31 December 2022 of \$2.9m, the Company received approx. \$1.0m in January 2023 from the IRS from US COVID-19 relief measures. An additional \$0.5m is expected to shortly be received resulting in total available funding of \$4.4m.

Elixinol Wellness Limited (**Elixinol Wellness, EXL** or the **Company**) (**ASX: EXL**) a global leader in the hemp industry, innovating, marketing and selling hemp-derived nutraceutical, food and topical products, releases its Appendix 4E and Annual Report for the year ended 31 December 2022 (**FY22**).

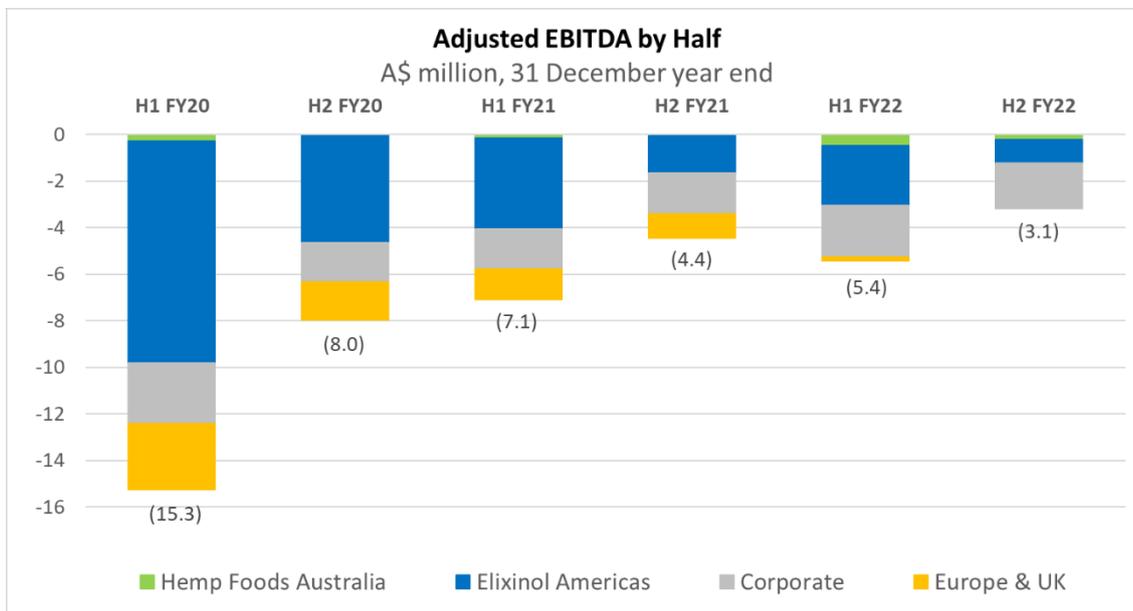
Global Chief Executive Officer (**Global CEO**), Ron Dufficy, commented: “FY22 saw a year of continued transformation for Elixinol Wellness while we focused on further improving our profitability position, and also seeking opportunities to maximise shareholder value through a strategic review process.

We have closed the year having driven an improved adjusted EBITDA result despite rising global costs. Profitability was improved for FY22, building another 26% on the 50% improvement reported in the prior year. This outcome is a result of significant focus on taking cost out of the business and introducing a combination of more efficiencies and new product and distribution arrangements, fit for market.

On top of driving forward our existing Elixinol and Hemp Foods Australia businesses, as we move into FY23, we are focused on completing the schemes of arrangement relating to the proposed acquisition of The Sustainable Nutrition Group. We are excited about the size, scale, manufacturing and profitability potential that this acquisition could bring.”

## FINANCIAL PERFORMANCE

Following the strategic review announced in February 2022 and the Group’s continued focus on cost reduction and margin improvement initiatives, the Group delivered on its EBITDA targets on the rebased cost structure. Elixinol Wellness’ profitability-focused initiatives led to a 26% improvement to the Adjusted EBITDA result, continuing the positive improvement trajectory on a year-on-year basis.



The Group also delivered numerous strategic objectives designed to position for future growth across the business, including announcing the proposed acquisition of The Sustainable Nutrition Group via schemes of arrangement.

Elixinol Wellness' net cash used in operations for the year ended 31 December 2022 was \$8.2m, representing a 42% improvement compared with FY21 of \$14.1m. With improving cash flow, the Company finished FY22 with a funding position of \$4.4m (including \$1.5m expected to be received from one-off US COVID-19 relief measures) and virtually no debt. The Company exited FY22 with approximately three quarters of funding based on historic normalised cash utilisation.

Revenue from continuing operations in FY22 was \$7.1m, down 24% (\$9.3m in FY21) primarily due to a challenging retail environment and a lack of regulatory development across key markets. However, improving market conditions and increased distribution of HFA products contributed to 20% revenue growth in H2 FY22 vs H1 FY22.

The Americas reported revenue of \$3.3m for the year ended 31 December 2022 (FY21: \$4.8m) and Adjusted EBITDA loss of \$3.6m for the year (FY21: \$5.5m Adjusted EBITDA loss).

Australia reported revenue of \$3.7m for the year ended 31 December 2022 (FY21: \$4.1m) and Adjusted EBITDA loss of \$0.7m (FY21: \$0.2m Adjusted EBITDA loss).

The 'Rest of World' segment comprising Elixinol BV, Elixinol Limited and licensing agreements from Elixinol Wellness (Corporate Services) Pty Ltd (**Rest of World**) reported revenue of \$0.05m for the year ended 31 December 2022 (FY21: \$0.5m) and Adjusted EBITDA loss of \$0.1m (FY21: \$2.3m Adjusted EBITDA loss).

## **BUSINESS UPDATE**

### **Americas**

Throughout 2022, Elixinol Americas continued to implement an aggressive transformation agenda. The business was focused on improving profitability, achieved by the accelerated move towards an outsourced capital light model, a reduction in operating expenditures and a further shift toward higher margin consumer channels, such as e-commerce.

The transition to a fully outsourced supply chain was completed at the end of FY21, with inhouse warehousing and fulfilment moving to the third-party model during the first quarter of FY22. This resulted in further operating cost efficiencies across the year, resulting in annualised savings of \$3.3m, from the prior year.

The Americas' full-time equivalent (**FTE**) head count was reduced from 29 to 9, contributing materially to the Company's overall reduction in quarterly cash outflows by \$1.2m comparing Q4 FY22 to Q4 FY21. Despite these budget and team reductions, the e-commerce business saw growth every quarter.

Elixinol Americas continued to optimise its online presence via the Shopify e-commerce platform. As a result of the Group's focused strategy on higher margin e-commerce channels and the increased demand for online shopping in the post COVID-19 environment, online sales now represent approximately 70% of US revenues (FY21: 63%).

Elixinol's loyalty program exceeded expectations with a participation rate of 7%, delivering \$0.4m in revenue. The brand's subscription program doubled in size, ending the year with more than 1,000 subscriptions and accounting for 21% of the eCommerce annual revenue.

In line with its ongoing product development strategy, a number of innovative products were launched in FY22. In Q1 FY22, Elixinol launched two new sleep products: the Sleep Rapid Reset Liposome and Sleep THC Free<sup>1</sup> gummies. The Sleep Rapid Reset Liposome and Sleep THC Free<sup>1</sup> gummies are unique, melatonin-free options for consumers to support optimal sleep. Both products contain CBD and CBN, marking it a first for the brand to include a minor cannabinoid into product formulations. Through Q3 and Q4 FY22 new Everyday Extra Strength 25mg gummies and Everyday Adaptogen Complex CBD capsules, containing reishi mushroom, ginseng and ginkgo, were launched to expand this range.

Toward the end of December 2022, Elixinol Americas launched two new hemp-derived minor cannabinoid products, THCv and CBD + Delta-9 gummies, which have both performed strongly and quickly moved into the top 5 best-selling SKUs by revenue/units sold.

The traditional retail channel for Elixinol's branded CBD products continues to underperform due to the ongoing unclear regulatory status of CBD products. However, post-period, on 26 January 2023, the U.S. Food and Drug Administration (**FDA**) announced its conclusion that CBD cannot be regulated under existing frameworks for dietary supplements and foods and that there was a need to establish a new regulatory pathway for hemp-derived CBD products. The FDA stated that it intends to work with Congress on a cross-regulatory strategy for these products and that a new regulatory pathway would benefit consumers by providing safeguards and oversight to manage and minimise risks associated with CBD products.

## Hemp Foods Australia

In H1 FY22, Hemp Foods Australia's operational improvement initiatives and growth trajectory halted due to normal seasonality challenges and a new wave of COVID-19 infections at the beginning of the year. The Company's Byron Bay facility was also impacted by the floods in Australia's Northern NSW region, resulting in some operational delays due to workforce availability. However, from Q2 FY22, trading conditions improved, supported by new product launches and a review of distribution arrangements.

The expansion of distribution arrangements also supported a rebound later in the reporting period, with hemp seed products confirmed for a new Costco store that opened in Auckland, New Zealand, in August 2022. Revenue grew in the second half, up 18.6% for H2 FY22 (\$2.0m) over H1 FY22 (\$1.7m).

During the year, a fourth product in Hemp Foods Australia's successful range of protein powders was made available, a mixed berry flavoured hemp protein product was launched as a smooth blend of antioxidant-rich acai and premium-grade Hemp Gold<sup>®</sup> Protein.

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<sup>1</sup> *THC Free means testing conducted to 0.01%. Testing method and detection limits vary depending on the test conducted. This is not a guarantee that no THC is present at concentrations less than 0.01%. This product meets federal requirements for hemp products, however consumption may be flagged by some drug tests.*

In addition, a seed mix range of four SKUs was also launched and ranged in 830 Coles stores nation-wide in September 2022. This range continues to perform strongly. An additional two SKUs are in the process of being developed to support and extend the range.

In December 2021, Hemp Foods Australia submitted a New Ingredient Application for its Hemp Seed Oil with the Australian regulator, the Therapeutic Goods Administration (**TGA**). On 29 November 2022, Hemp Foods Australia received the TGA's approval of its application, which means Hemp Seed Oil is now accepted as safe and of appropriate quality to be a 'permissible ingredient' in Listed Medicines (being therapeutic goods listed in the Australian Register of Therapeutic Goods).

The Therapeutic Goods (Permissible Ingredients) Determination was also subsequently updated to include Hemp Seed Oil. The *Therapeutic Goods (Permissible Ingredients) Determination (No. 5) 2022* has now been published on the Federal Register of Legislation, with a commencement date of 29 November 2022.

As a result, Hemp Foods Australia has been afforded a two-year period of 'market exclusivity' to use and supply the ingredient for listed complementary medicines in the Australian market. This exclusivity provides a first mover advantage and serves as a point of differentiation with competitors and will enable Hemp Foods Australia to exclusively produce, sell and/or licence products that include the Hemp Seed Oil ingredient for two years with exclusivity to make claims on those products over that period. Taking advantage of this position, the Company plans to launch an entirely new range of Hemp Seed Oil capsules expected to be released in H1 FY23.

Following the stocking of Hemp Food Australia's certified organic 250ml Hemp Gold Seed Oil in more than 100 Woolworths stores in FY21, the Company has received confirmation that distribution of the oil is going national, with the product to be stocked across 948 Woolworths stores from February 2023.

## **REFINED STRATEGIC FOCUS, FOLLOWING COMPLETION OF STRATEGIC REVIEW THROUGH FY22**

Elixinol Wellness has been repositioned as a branded consumer goods business over the last few years, leading to improved fundamentals with substantial cost reductions and improved cash-flows. The Company's strategy is to build a global, hemp-centric wellness consumer products company, with a stated vision of creating a healthier everyday life through the power of hemp and plant-based products.

As the Company completed a strategic review process during FY22, it confirmed it will focus its investments on its core assets, Hemp Foods Australia and Elixinol America, which are both well positioned with strong brands, occupying positions of strategic value as the industry continues to evolve. The strategic review process also resulted in a significantly reduced cost base and a streamlined organisational structure that now combines corporate with business unit functions and, importantly, confirms the Company's strategic direction to diversify its operations further towards natural and plant-based wellness products, thus reducing reliance on its CBD portfolio.

In addition to continuing to consider and evaluate options for shareholder value creation when opportunities arise, the Company remains focused on driving the already identified cost efficiencies and simplifying the business to strengthen its balance sheet and further enhance strategic value.

On 29 November 2022, the Company announced it will implement schemes of arrangement with The Sustainable Nutrition Group Ltd (ASX: TSN) (**TSN**) to acquire 100% of TSN's ordinary shares and effect an exchange of options, to further support the focus on strong brands and a position of strategic value and will result in the Group owning and operating brands across four key verticals: plant-based food and nutrition, hemp-based nutraceuticals (including cannabinoids such as CBD), pet nutritional supplements and skin health. TSN brands include Australian Primary Hemp, Mt Elephant, Field Day and The Australian Superfood Company.

The Company will maintain a watching brief in relation to potential investments in the Rest of the World, which will depend on progress in the regulatory environment relating to hemp-based products. It currently has licencing arrangements in place in the UK, Japan, South Africa and Malaysia (pending approvals).

## **POST PERIOD – COMPANY SUCCESSFUL IN INTERNATIONAL ARBITRATION**

On 14 February 2023, the Company announced to the market that the dispute between CannaCare Health GmbH (**CannaCare**) and the Company's wholly owned subsidiary, Elixinol BV, has now been successfully concluded, with the Arbitration Award made in the Company's favour and the Arbitrator ordering a final Award of approximately 0.5m EUR (AU\$0.8m).

The Arbitration Award is vindication of the Company's position that it was owed the payments the subject of the arbitration and that the claims made by CannaCare's shareholders were without merit.

## **OUTLOOK**

Elixinol Wellness remains positive about the market opportunity for hemp-derived food and CBD products, and its ability to leverage its strong brands and reputation for high quality products. The Group has positioned its strategy towards a branded consumer goods nutraceutical and food business aimed at delivering profitable growth. Looking ahead, strategic focus is predicated on the following strategic initiatives to support revenue growth and margin improvement:

- Bring to market an extensive new product development pipeline through innovation in functional plant-based foods and CBD nutraceuticals;
- Merge The Sustainable Nutrition Group (**TSN**) business (proposed acquisition announced 29 November 2022) with the Australian hemp foods product offering to realise synergies and economics of scale and broaden national retail distribution through Woolworths, Coles, Costco and pharmacy chains;

- Relentless focus on improving capital efficiency - long term focus on improving cash flow, driving margin accretion and tightly controlling expenditures;
- Continue to operate the Elixinol Americas business with a lean and capital light business model;
- Continued investment in building brands in core markets of Australia and US and maintain brand presence in other select markets; and
- Develop an Environment, Social and Governance (**ESG**) agenda to support our purpose of 'doing good for people and the planet through the power of hemp'.

### **Note to Market**

The Company will continue its practice of not providing financial guidance in the current market as continuing volatility, industry dynamics and the challenging macro environment make it extremely difficult to provide forecasts.

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) is a global leader in the hemp industry, innovating, marketing and selling hemp and other plant-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 and other plant-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, Brazil, Mexico and Malaysia (pending approvals), branded hemp and other plant-derived products are available to consumers via exclusive Distribution and/or Trademark and Know-How Licensing Agreements
- Across the Rest of World, expanding distribution of branded hemp and other plant-derived products through reputable distributors as key markets open.

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