

ASX Announcement 25 February 2022

CONTINUED BUSINESS OPTIMISATION EFFORTS DRIVE IMPROVED ADJUSTED EBITDA RESULT, UP BY 50% (FY21 VS PCP) DESPITE 38% REVENUE DECLINES. ADDITIONAL SIGNIFICANT COST REDUCTION INITIATIVES UNDERWAY.

Key highlights

- **Group wide transformation and restructuring efforts drive profitability and \$11.7m / 50% improvement in Adjusted EBITDA, from -\$23.2m in FY20 to -\$11.5m in FY21**
 - **Elixinol Americas delivers largest EBITDA improvement through period despite challenging market context and continued brand investment**
 - **Hemp Foods Australia's strategy to drive profitability through range optimisation results in a 33% EBITDA improvement whilst also allowing for increased marketing investment**
- **Strategy to focus on branded products and e-commerce channels drove significant improvement in margins, which finished the period at 52%, up from 45%**
- **FY21 investment in building innovation capability delivered a wide-reaching new product launch pipeline**
- **Strong funding position ending FY21 with funding of \$14.7m¹ and reduced CAPEX due to simplified and capital light business model**
- **Business transformation drives \$10.3m in cost savings with several additional, significant cost reduction initiatives underway**
- **Board of Elixinol Wellness commenced a strategic review, post period, 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**) a global leader in the hemp derived food and CBD industry, innovating, and selling hemp derived nutraceutical and food products, releases its Appendix 4E and Annual Report for the year ended 31 December 2021 (FY21).

Global CEO, Oliver Horn, commented *"Overall, we are pleased with the progress made on our transformation through FY21. We have created a leaner consumer products wellness*

¹ Includes \$12.6m cash on hand plus \$2.1m expected to be received from one-off US COVID-19 relief measures (\$1.6m from ERC program plus \$0.5m refund of taxes paid in prior financial years).

company with leading brands that are strongly positioned in long-term growth. We have also identified opportunities to significantly reduce corporate overheads this financial year.

Our FY22 priorities reflect our focus on delivering value to shareholders. Through our previously announced strategic review, we are taking the natural next step toward improving shareholder returns. We are considering all options, including merger, sale or other options for the Company as a whole or as business units.

While the strategic review is being undertaken, we remain focused on driving performance in the Australian and US markets where we have a strong competitive position. We will continue to accelerate our e-commerce growth and bring exciting new products to consumers and customers, while continuing to improve profitability and reduce our cost base.”

FINANCIAL PERFORMANCE

Elixinol Wellness is on a consistent improvement trajectory having delivered its best Adjusted EBITDA performance in recent periods and continues, well capitalised, with a strong cash position.

Elixinol Wellness’ net cash used in operations for the year ended 31 December 2021 was \$14.1m representing a 38% improvement compared with FY20 in \$22.6m. Revenue from continuing operations in FY21 was \$9.3m, down 38% (\$15.0m in FY20) primarily due to the exit of bulk and private label channels, COVID-19 impacting retail channels in key markets contributing towards Elixinol Wellness’ decision to transition to a licensing model for the UK market. Revenue contribution from sales of higher margin Elixinol and Hemp Foods Australia branded products in FY20 was \$8.6m (92% of Group revenue) compared with \$11.4m in FY20 (75% of Group revenue).



Adjusted EBITDA² losses were \$11.5m in FY21, an improvement from losses of \$23.2m in FY20. Significant improvement was achieved between H1 FY21 (\$7.1m loss) and H2 FY21 (\$4.4m loss), despite lower revenue, with a reduced cost base supporting a more focused

² Excluding non-cash impairments and share-based payments.

strategy. Contributing to this improvement was the recording of \$1.6m non-recurring income from US employee retention credits. With improving cash flow, the Company finished FY21 well-funded and virtually no debt. The Company exited FY21 with approximately five quarters of funding based on historic cash utilisation. However, several cost reduction measures are well underway which will significantly reduce our corporate overhead structure.

BUSINESS UPDATE

Evolution of global expansion strategy

Elixinol Wellness' global expansion strategy evolved in FY21. The objective was to cement the already strong brand reach by partnering with the most credentialed in-market partners to establish licensing agreements. This provided lower cost access to the market while ensuring access to established local expertise.

Europe and UK saw a strategic shift in operations following extended COVID-19 lockdowns that severely impacted traditional retail sales and a stalemate in the UK CBD industry following a year of regulatory uncertainty during the roll out of the Novel Foods legislation. The Group consequently disestablished its unprofitable direct operations and transitioned to a licensing model at the end of FY21. Consequently, Adjusted EBITDA improved by 49% to a loss of \$2.3m for the Europe and UK segment (FY20: loss of \$4.5m). The future operating costs for the European and UK segment are expected to be less than \$0.2m per annum.

A three-year exclusive Trademark and Know-how Licensing Agreement was subsequently secured with the UK's largest CBD manufacturer and distributor, BRITISH CANNABIS™, at the end of last year. The deal enables BRITISH CANNABIS™ to manufacture, market and sell Elixinol CBD products across the UK, ensuring the Elixinol brand continues to be distributed in this market while realising significant cost savings for the Group.

In addition to this new agreement with BRITISH CANNABIS™ in the UK, Elixinol Wellness also signed licensing and distribution agreements in Mexico, Malaysia and South Africa to create a foothold in emerging CBD markets that have a positive regulatory outlook. Elixinol has long been an established brand in South Africa where CBD has been legal for some time. Mexico only recently passed legislation to legalise CBD whereas Malaysia is expected to create a legal pathway for CBD in the near term.

The Company also made the carefully considered decision to withdraw from the proposed acquisition of CannaCare Health GmbH in Germany in June last year, based on the view that moving ahead with the acquisition was not in the best interest of shareholders.

Following the exclusive Trademark and Know-How License Agreement with Elixinol Japan in FY20 to manufacture and sell Elixinol branded CBD nutraceuticals products across the country, very strong progress has been made this past year in relaunching the brand. The Company is now seeing the benefits and has just received its first royalty payment. Given Japan is one of Asia's largest CBD markets and Elixinol Japan is firmly focused on market leadership, Elixinol Wellness is confident the royalties will continue through FY22.

Elixinol Americas – business model transformed

Elixinol Americas continued its transformation agenda towards a capital light and e-commerce led branded wellness products business. A more focused channel and product strategy delivered a 14 points Gross Margin improvement to 71% (FY20: 57%) whilst operating expenses were reduced by 40% to \$10.6m (FY20: \$17.6m). This resulted in a 61% Adjusted EBITDA improvement to a loss of \$5.5m (FY20: loss of \$14.2m).

Hemp Foods Australia gains distribution, optimises portfolio

Hemp Foods Australia increased its importance to the Group result accounting for 44% of total revenues at near break-even levels. After a soft start, revenues improved throughout the year quarter by quarter resulting in a stable revenue but significant profitability gains following further portfolio optimisation and enhanced channel strategy geared towards margin accretion. E-commerce grew by 36% materially contributing to an overall Gross Margin improvement of 7 pts to 34% (FY20: 27%). Adjusted EBITDA improved 33% to near break-even at a \$0.2m loss.

Hemp Foods Australia further strengthened its market position through wider national distribution as hemp-based food products continued to move further into the mainstream of consumer diets. Despite COVID-19 challenges, Hemp Foods Australia's revenue in FY21 was in line with FY20, helped by new national distribution deals with Woolworths and Costco, and strong gains in the direct-to-consumer e-commerce strategy. This was offset through deliberate efforts to exit low profitability products in order to improve profitability.

Digital Growth Strategy Driving Growth and Profitability

Elixinol Wellness' shift to being 'digital-first' and investment in e-commerce continues to be rewarded, with 39% of revenue being derived from e-commerce in FY21 (FY20: 33%).

In the last quarter of FY21, Elixinol Americas successfully transitioned to the Shopify e-commerce platform as it offers a better user experience while yielding significant cost savings. Since launch in October 2021, the e-commerce site has demonstrated strong performance improvements, with 72% growth in user sessions and 25% transaction growth versus the prior quarter and is set to provide a welcome growth platform for 2022.

Hemp Foods Australia also realised significant improvements in online sales in FY21, with both e-commerce revenue and transactions up 47%, and conversion rates up by 27% on the previous financial year.

Investment in innovation leads to new product pipeline

One of the Company's most significant investments during the FY21 was the creation of a Global R&D and Innovation team. The team is focused on developing next generation nutraceuticals and health food products, with rapid progress made to date. In FY21 the Group launched a number of new products that are already driving revenue growth, including an Elixinol CBD pet range and Hemp Foods Australia's hemp paste.

A comprehensive new product pipeline will continue to roll out in H1 FY22, ensuring Elixinol Wellness leads the industry for innovation and product development in both the CBD and hemp foods space. One example is the newly launched Elixinol Sleep product range which includes gummies, liposomes and tinctures which have become best sellers within a short period of time.

STRATEGIC REVIEW

Post period, Elixinol Wellness announced that the Board had commenced a strategic review to maximise shareholder value. The Board believes the Company is well positioned with strong brands in long-term consumer growth categories.

The strategic review will include consideration of merger, sale or other options for the Company as a whole or its business units.

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, 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 on a sustained growth trajectory and is already nearing profitability.

Given recent prices at which Elixinol Wellness shares have traded on the ASX, the Board believes the business is undervalued and, in this context, has commenced 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.

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

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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 derived nutraceutical 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, Brazil, Mexico and Malaysia (pending approvals), 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 branded hemp derived products through reputable distributors as key markets open.

See more at www.elixinolwellness.com.