

CLOVER CORPORATION LIMITED
ABN 85 003 622 866

CHAIRMAN'S REPORT

Clover Corporation Limited (Clover) reported a net profit after tax (NPAT) for the 12 months ended 31 July 2018 of \$7.6m (2017: profit of \$3.6m).

Sales revenue in FY2018 was \$63.0m (2017: \$47.9m) an increase of 31.5%.

	2018 Statutory \$000's	2017 Statutory \$000's
Sales Revenue	62,961	47,864
EBIT	10,220	5,488
Profit before tax	10,616	5,012
Profit after tax	7,588	3,639

Sales for the year have grown 31.5% with revenue growth across all territories. Clover has experienced increased demand from existing and new customers, delivering a 109% increase in net profit after tax. The margin rate has improved across the year, with additional volume delivering improved productivity. The company has benefited from its natural hedge policy better aligning sales currency to purchasing currency.

Commercial

Clover has added to its commercial team with a business development manager located in New Zealand, a market which has provided significant growth in recent times. The business has a strong pipeline of new opportunities driven by a constant customer face to face development program supported by a knowledgeable technical team. Clover has benefited from its new product development work over recent years, with the hypoallergenic product now widely used across specialty infant formula brands and the highly concentrated Omega 3 powder winning new business in the growing nutraceutical gummy sector. Other product applications are in trial and product development, with sales expected in the future. The infant formula market has continued to grow with Chinese customers showing a preference for imported products, and many Chinese manufacturers are positioning themselves off shore in Joint Ventures and greenfield sites to meet the consumer sentiment.

China

Chinese regulations have changed with new regulations requiring brands to be registered and licensed. This appears to have improved the demand of many of Clover's customers, whilst smaller brands have not achieved licensing or have lost favour with customers. Overall China demand has grown with manufacturers reporting significant growth rates across the year.

Europe

Customers in Europe are preparing for the introduction of new regulations requiring them to include a minimum of 20mg of DHA per 100k/cal by February 2020. Clover has worked with customers across the European market assisting them to achieve the new requirement, which on average doubles their DHA usage compared to current inputs. Whilst some brands will use direct oil injection, others will supplement their product with a powder form of DHA. Clover expects to benefit from the change in regulations with its superior Driphorm DHA powder formulation readily able to address the changed requirements.

Australia & New Zealand

Strong demand in New Zealand has driven revenue, and Clover now has an additional New Zealand based executive to manage the customer relationships. The Australian and New Zealand markets have benefited from increased production facilities coming on line, with additional factories under construction. The 'clean, green' image of these markets has attracted the Chinese consumer, increasing demand and raising New Zealand to number three supplier of infant formula to China in the world.

Americas

Clover's distributor in North America has helped launch our highly concentrated DHA product into the gummy market and is promoting applications into the sports nutrition, ready to drink and nutraceutical markets. New distributors in South America have only just started with Clover products but have already recorded initial orders, providing a promising route into both the North and South American markets.

Research & Development

Clover has developed several new products across 2018 and as a result has made two new patent applications. These new products should open new markets and enhance Clover's existing offering, providing a platform for future growth. Our dedicated Research and Development team has significant knowledge in the Micro Encapsulation area, with their skills often called upon by customers. During 2018 Clover released a technical paper which cited clinical trial work encompassing the DHA lipid found in Clover's core products. The paper which was published in "Critical Reviews in Food Science and Nutrition" journal clearly demonstrates the value of Omega 3 supplementation in supporting health and development outcomes, and will assist customers in identifying target markets for new products where clinical benefit has been established.

Operations

Clover has increased its production capacity at its Altona North refinery to meet increased demand, and operates its current spray drying capacity within its available contracted time. The company is endeavouring to establish additional capacity for drying in the 2019/20 years, securing relationships with third party manufacturers and investing in additional capacity to meet forecasted demand.

Expenditure

Clover has experienced high volume growth, which has resulted in additional cost, but has still contained operating expenses in 2018 to \$8.3m (2017 \$6.1m) with the unit overhead level consistent with the prior period. During the past twelve months the company has purchased its production site in Altona North, consolidating its Victorian operations onto one site, which will deliver further cost savings and process improvements for years to come.

Inventories at year end were valued at \$19.8m (2017: \$18.8m), providing consistent inventory turnover as the company continues to focus on maintaining tight inventory controls, with the increase year on year reflecting the high volumes being manufactured and a strong raw material position. The overall cash position of the business at year end was \$7.9m (2017: \$5.9m). Clover operates out of underlying cash balances with minimal bank debt of \$4.2m covering the current purchase of the Altona North factory. The business continues to review investment opportunities for expansion into aligned markets and products.

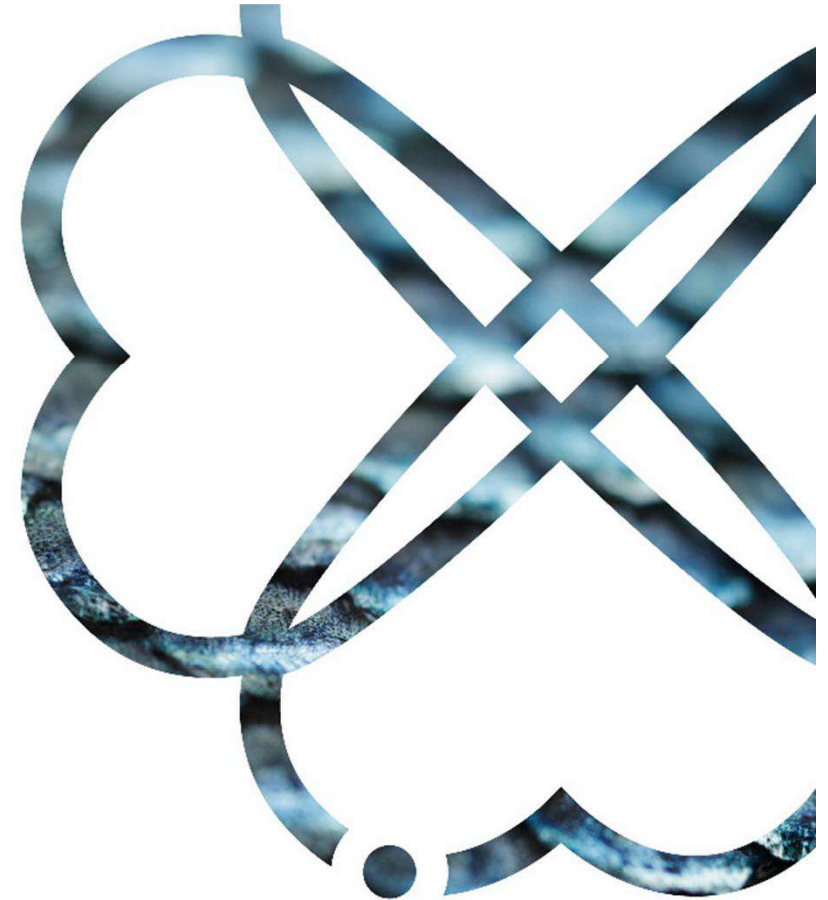
Dividend

Based on the performance of Clover in FY18 the Directors have decided to declare a fully franked final dividend for FY18 of 1.25 cents per share.

Whilst Clover's performance remains susceptible to demand volatility in the Chinese Infant Formula market, the outlook for FY19 is positive as Clover develops new markets and product opportunities, with the impact of regulatory change in China and the EU flowing through to product applications.

Managing Director's Report 12 Months to 31 July 2018

23 November 2018



Vision and Mission Statement

Vision

To optimise the health and development of adults, infants and children.

Mission

To deliver science based bioactives which provide health benefits to adults, infants and children.

Full Year Performance Highlights

- ✓ Total full year Revenue **\$62.9m** up **32%** on FY17 \$47.9m driven by improved demand
- ✓ Net Profit **\$7.6m** up **109%** on FY17 \$3.6m.
- ✓ Operating Expenses **\$8.3m** (FY17 \$6.1m); increased investment in people and technology to develop new products and sales
- ✓ New products delivering growth in new segments and countries
- ✓ Inventory at **\$19.8m** up \$1.0m on FY17 full year upon forward demand
- ✓ Balance Sheet remains strong with cash of **\$7.9m**
- ✓ Final dividend declared of **1.25 cent** per share, a 67% increase on prior year final

Full Year 2018 Results

AUD million	4E Reported 31 Jul 2018	4E Reported 31 Jul 2017
Revenue	\$62.9	\$47.9
EBITDA	\$10.9	\$6.1
NPBT	\$10.6	\$5.0
Tax	(\$3.0)	(\$1.4)
NPAT	\$7.6	\$3.6
EPS	4.59 cps	2.20 cps
ROE (annualised)	21.4%	11.7%

- ♣ 32% year on year revenue growth
- ♣ Australia/NZ key growth region
- ♣ EBITDA \$10.9m (PY \$6.1m)
- ♣ Fixed costs managed \$8.3m (PY \$6.1m), resourcing for future growth
- ♣ NPAT result \$7.6m (PY \$3.6m)

Balance Sheet 31 July 2018

AUD million	Reported 31 Jul 2018	Reported 31 July 2017	Movement
Cash	\$7.9	\$5.9	+\$2.0m
Trade Receivables	\$15.3	\$12.1	+\$3.2m
Inventories	\$19.8	\$18.8	+\$1.0m
Total Current Assets	\$43.6	\$37.6	+\$6.0m
PPE/Intangible Assets	\$8.5	\$5.0	+\$3.5m
Total Assets	\$52.0	\$42.6	+\$9.4m
Trade Payables	(\$7.8)	(\$9.2)	+\$1.4m
Total Current Liabilities	(\$10.1)	(\$9.9)	-\$0.2m
Total Liabilities	(\$13.9)	(\$10.0)	-\$3.9m
Net Assets	\$38.1	\$32.6	+\$5.5m

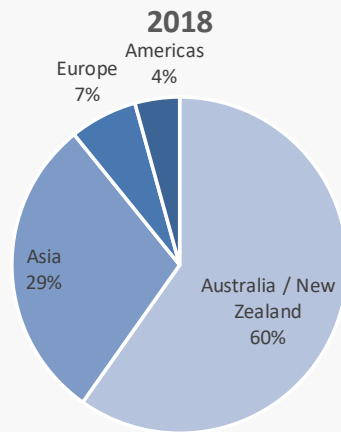
- ♣ Cash balance strong \$7.9m
- ♣ Trade receivables up on FY17 reflects sales increase
- ♣ Inventory levels maintained to meet demand
- ♣ Payables managed in line with inventory activity

Sales by Geography & Product

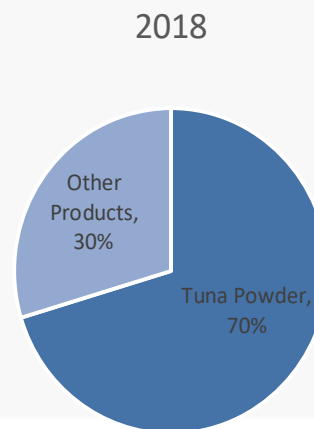
- ♣ Sales across key regions have grown during FY18 compared to FY17
- ♣ Australia/NZ continue to be major growth region for IF for the Chinese market

- ♣ Encapsulated Tuna oil leads sales revenue with encapsulated Algal oils and other oils represented in other products

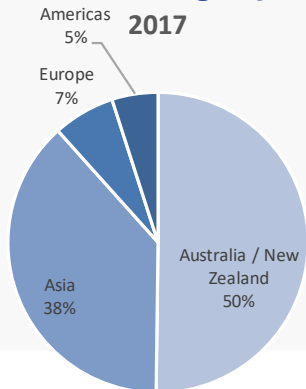
FY 2018 Geographic



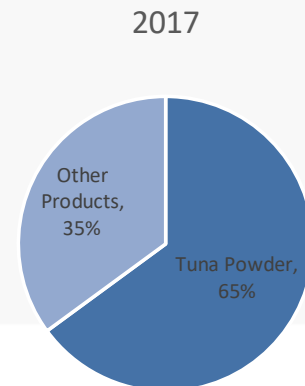
FY 2018 Product



FY 2017 Geographic



FY 2017 Product



Market Update

Market changes

- Slowing of CFDA registrations for International brands to sell in China
- New EU regulation requiring the mandatory inclusion of DHA in infant formula by Feb. 2020
- Consumers preference for non-China manufactured infant formula
- China extends CBEC (Cross Boarder Electronic Commerce) market with new regulations expected in early 2019
- New Chinese DRAFT GB standard for Infant Formula requiring a min. 15mg DHA /100Kcal (DHA is not currently a mandatory inclusion)

Outcomes for Clover

- Clover's customers are cautious around inventory, as when CFDA licence awarded new cans are required
- EU infant formula manufacturers will use encapsulated DHA like Clover's product to meet new regulations
- Australia / New Zealand brands in demand, increasing demand for Clover's ingredients
- Clover supplies to manufacturers who benefit from the extended CBEC trade
- If the DRAFT becomes legislation Clover expects to benefit from the increased DHA usage

Overview of Melody Dairies investment

What is it?

- ♣ Melody Dairies is a separate company that will build and operate a nutritional spray dryer in Hamilton, New Zealand (NZ)

The Rationale

- ♣ Clover manufactures its nutritional powders on spray dryers
- ♣ The company has increased volume by more than 20% per annum and requires additional capacity to support future growth
- ♣ Clover has an existing relationship with New Zealand Food Innovation Waikato (NZFIW), who own and operate a dryer at the same location
- ♣ NZFIW will operate the new dryer and be a partner



Overview of Melody Dairies investment cont.

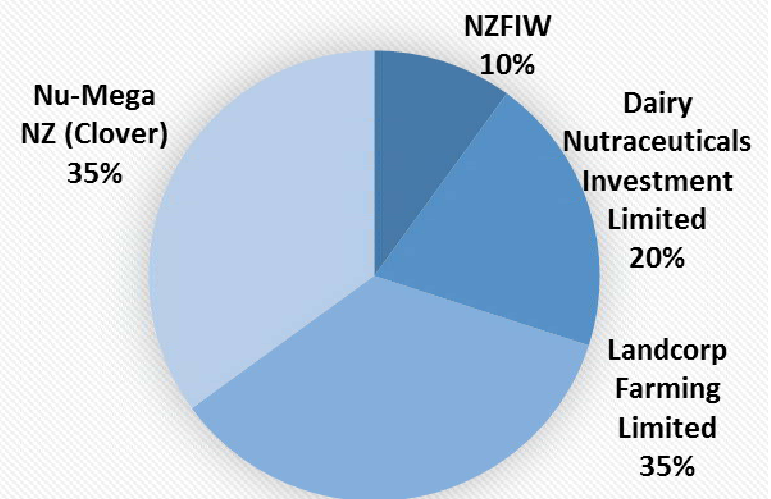
Solution and results

- ♣ Melody Dairies will be owned by four partners who will also have access to the dryer's capacity equivalent to their share of the business
- ♣ The dryer has a capacity of 1.2 metric tonnes per hour providing Clover with additional volume to support the growing NZ market

Alternatives

- ♣ Clover is also contracted to manufacture products at spray drying facilities in Australia and New Zealand and will continue to do so, meaning the new dryer adds capacity and reduces risk

Melody Dairies Ownership



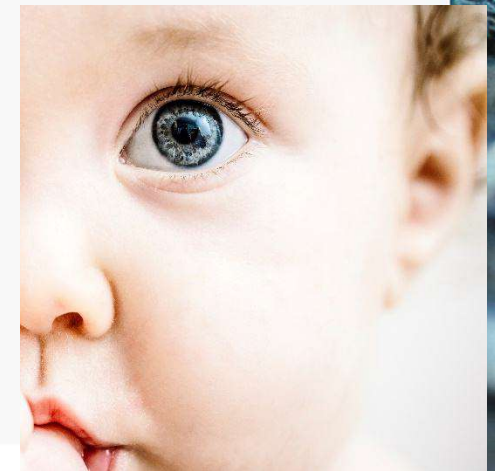
An Update on Growth Platforms



Growth Platform

Infant formula maintains growth

- ♣ Chinese consumer sentiment for Western brands is driving growth for customers
- ♣ Awarding of CFDA licenses to market and sell product in China has slowed, the CBEC (Cross Border Electronic Commerce) trade has strengthened
- ♣ Existing customers have been re-contracted and showing growth with several new customers contracted globally



Growth Platform

New products driving future growth

- ♣ Clover's Hypoallergenic DHA product continues to win new customers and applications in speciality segments
- ♣ A highly concentrated DHA product which delivers 60% oil loading in a powder form is now used in sports nutrition and nutraceutical products
- ♣ Clover has applied for two new patents and released a technical paper published in "Critical Reviews in Food Science and Nutrition" journal (a technical paper collecting all data proving the importance of DHA to good health and development)

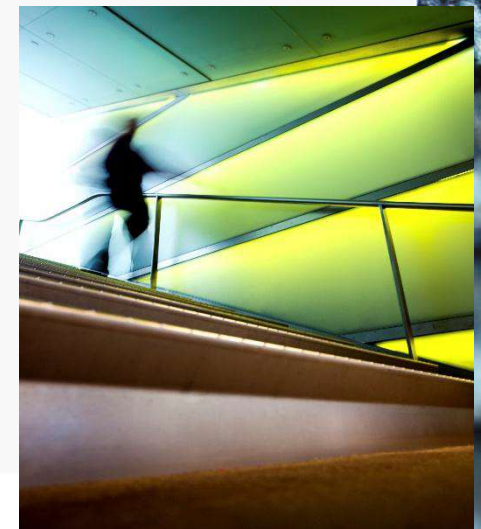
<http://www.clovercorp.com.au/en/explore-the-latest/new-science/high-dha-fish-oil-systematic-review-of-evidence/>



Growth Platform

New markets development

- ♣ Clover has grown sales in USA, Europe, Asia and ANZ
- ♣ Australia & New Zealand has experienced significant growth servicing the Asian market with several new facilities starting production
- ♣ Clover has appointed a Business Development resource in NZ and new distributors in South America



1HFY19 Outlook & Priorities

- ♣ Growth in European markets driven by the requirement to increase DHA levels in infant formula
- ♣ Clover has entered into a contract to purchase a share of a spray drying facility in Hamilton, New Zealand
- ♣ Development of new products targeting sports nutrition, children's and seniors' health
- ♣ Growth expected in Asia, USA and South America
- ♣ Establish customers for new products in nutraceuticals, pharmaceuticals, and sports nutrition
- ♣ Additional staff to service customers and deliver on opportunities
- ♣ Improve efficiencies and reduce operating costs
- ♣ Add value through strategic acquisition and/or partnership

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