



ASX Announcement: 31 January 2020

ELIXINOL GLOBAL LIMITED Q4 FY2019 APPENDIX 4C AND QUARTERLY BUSINESS UPDATE NORMALISED REVENUE DECLINE OF 44% ON Q3 FY2019 ACTIONS TAKEN TO REDUCE FUTURE CASH BURN

Summary:

- Q4 FY2019 normalised revenue of \$4.4m¹ (excluding discontinuing operations), represents a disappointing:
 - 44% decline on the prior sequential period Q3 FY2019 of \$7.9m
 - 59% decline on the prior corresponding period Q4 FY2018 of \$10.7m
- Actions taken to significantly reduce future cash burn
- Simplifying the business model to focus on the hemp derived CBD market
- Brand and product refresh on track to launch in March 2020, expected to drive growth in e-Commerce and Retail sales
- Continued development of global distribution strategy
- Investment in infrastructure to drive operating efficiencies and margin improvement
- Growth in the human and pet hemp derived CBD market has underperformed expectations
- Unclear regulatory environment allowing inferior hemp derived CBD products creating a crowded and confusing market
- Bipartisan support in US Congress to resolve hemp derived CBD classification

Elixinol Global Limited (Elixinol or the Company) (ASX:EXL; OTC:ELLXF), a global leader in the hemp derived CBD industry, innovating, manufacturing and selling hemp derived CBD products, releases its business review and Appendix 4C cash flow statement for the quarter ending 31 December 2019 (Q4 FY2019).

Outlook

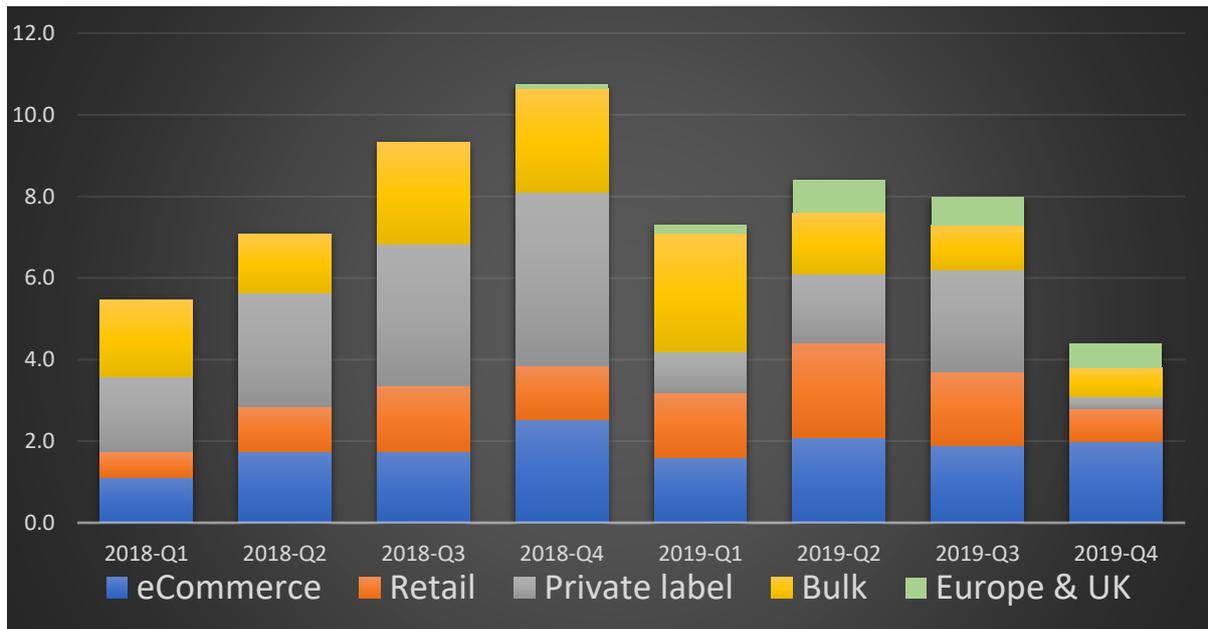
Group Chief Executive Officer (**Group CEO**), Stratos Karousos said: “Elixinol’s revenues in Q3 and Q4 FY2019 have been disappointing. We have taken steps to reduce our cash burn to account for the delayed development of the hemp derived CBD market, in particular in the US and Europe & UK. We will continue to focus on return on investment to enable us to leverage the significant capital that has been deployed in operations, e-commerce, raw materials and key people. Elixinol’s refined strategy on hemp derived CBD in the US and Europe & UK ensures the Company is well positioned, despite prolonged regulatory developments, with a pathway to positive cashflows and will be able to capitalise on the expected global growth in the hemp derived CBD market in 2020 and beyond. We will continue to build on the initiatives that are underway to deliver value to all shareholders.”

¹ All dollar amounts are in AUD unless otherwise stated; Average AUD/USD for Q4 FY2019 = 0.68; Historical revenues are unaudited and are shown on a normalised basis which exclude discontinuing operations of Elixinol Co Ltd (Elixinol Japan) and assets available for sale of Hemp Foods Australia Pty Ltd.



Revenue by Quarter (A\$m)²

Elixinol reported unaudited normalised revenue of \$4.4m (excluding discontinuing operations) for Q4 FY2019, representing a 59% decline on prior corresponding period Q4 FY2018 and 44% decline on Q3 FY2019. The Company continues to reduce its focus on its lower margin private label business to enable increased capacity for expected future growth of higher margin branded products and provide the ability to capture further market share.



Appendix 4C

In preparation for an increase in global demand in the hemp derived CBD market, through 2019 the business continued to invest in building sales distribution, growing brand awareness through marketing activities, as well as implementing the appropriate supporting infrastructure. The Company also has built significant inventory of high-quality Elixinol branded products in anticipation of expected future growth.

Given the current regulatory environment that is impacting sales across all channels, the Company has taken action to significantly reduce future cash burn:

- All major capital works programs are complete
- The Colorado production facility is operational which will improve product margins and reduce reliance on third party processing
- Q4 FY2019 cash flow included final payments for CY2019 raw material supply commitments: Q1 FY2020 commitments are \$3.3m lower than Q4 FY2019

² All dollar amounts are in AUD unless otherwise stated; Average AUD/USD for Q4 FY2019 = 0.68; Historical revenues are unaudited and are shown on a normalised basis which exclude discontinuing operations of Elixinol Co Ltd (Elixinol Japan) and assets available for sale of Hemp Foods Australia Pty Ltd.



- Adequate inventory is on hand to support at a minimum CY2020 demand, minimising ongoing cash requirements for raw material in the near term
- A 24% reduction in workforce numbers was completed during January 2020 whereby headcount supporting continuing operations was reduced from 119 at 31 December 2019 to 93 at 31 January 2020.

The Company continued to invest in key areas of the business to pursue its strategy and focus on increasing its distribution of Elixinol branded products through a multi-channel approach to grow revenues and capture further market share. During the period, the Company deployed capital to accelerate growth of its European business which, during Q4 FY2019, incurred \$1.7m net operating cash outflows.

Capital expenditure during Q4 FY2019 totalled \$1.4m, which included \$1.3m in final payments for equipment and fit out related to the commissioning of the new Colorado production facility. During the period, the Company completed the implementation of its global ERP system. The total cost of the ERP system was \$0.9m of which \$0.3m was paid during Q4 FY2019. The initial \$0.6m of ERP costs were previously reported as operating costs in Q3 FY2019 and have now been restated as capital expenditure. The Company currently has no ongoing significant capital expenditure commitments in the near term.

Market Update

On 17 December 2019 the Company provided an update to the market following a review of operations since the commencement of Stratos Karousos as Group CEO in July 2019.

Refined Strategic Focus

Elixinol remains very positive on the market opportunity for hemp derived CBD and its ability to leverage its strong reputation for high-quality hemp derived CBD products. Elixinol is ideally positioned in the US and Europe & UK markets given its recent investment in people, infrastructure and production capacity.

Despite a prolonged uncertain regulatory environment, Elixinol has refined its strategy to ensure it delivers both short and long-term success. Elixinol's strategic focus is now predicated on the following key pillars to support revenue growth and margin improvement:

- Simplifying its business model to focus on hemp derived CBD products
- Building Elixinol into a dynamic CPG group as a trusted global brand
- Maintaining current high-quality supply partners particularly in the organic space
- Leveraging its investment in production capacity and strategic partnerships
- Tightening cost control and capital management
- Diligently investing capital to appropriately position itself for future growth.

Simplified Business Model

The Company is currently reviewing potential strategic options for Hemp Foods Australia Pty Ltd (**HFA**) and Nunyara Pharma Pty Ltd with a view to optimising shareholder value including the potential divestment of these businesses. The Company expects to report HFA as "assets available for sale" in its FY2019 financial statements. Accordingly, estimated cash



outflows for Q1 FY2020 that are related to HFA of \$1.4m are excluded from estimated cash outflows reported in Section 9 of the Appendix 4C and will be reported separately as cash outflows from discontinued operations.

Investment in Operations and e-Commerce

Elixinol has continued to invest in its operational processes and systems throughout 2019 to achieve an improved level of operating efficiency.

The majority of this work has been completed in 2019 and there are further improvements targeted for 2020 and beyond. Some of these key developments in 2019 included:

- Implementing new ERP systems which enabled Elixinol to capture more accurate data in relation to sourcing, manufacturing and distribution.
- Developing a new e-commerce platform to become a leading player in this segment of the industry. This work will also allow the Company to leverage a data driven approach to sales and marketing by utilising its newly implemented ERP systems.

Americas

The Company continued its strategy to focus on higher margin branded products. During the period, 74% of USA revenues were generated from Elixinol branded products. Private label sales were impacted by ongoing regulatory uncertainty. Sales through US retail channels were impacted by allowing for the expected returns of Sativa skin care products and Elixinol powder products from Albertsons stores which had delivered lower sales turnover than expected. Elixinol has completed a total brand and product refresh which will be released to the market in the back half of Q1 FY2020. This refresh is driven by the ongoing changes in the hemp derived CBD market as the market becomes more consumer focused.

US regulatory update

The US Food and Drug Association (**FDA**) is yet to lay out a regulatory path for the retail sale of hemp derived CBD products. While such a legal cloud hovers over commerce in safe, quality-assured, popular CBD products, many inferior products crowd the market.

Congress has begun to act with a bi-partisan effort taking steps to force the FDA's hand. In January 2020, a bill with bi-partisan support was introduced (HR 5587) that would allow FDA-regulated, hemp derived CBD to be marketed in dietary supplements and as food and beverage additives.

Northern Colorado High Plains Producers (**NCHPP**)

In November 2019, the Company's farming joint venture, NCHPP, produced almost 50,000 pounds of hemp biomass. Whilst the yields and quality exceeded internal expectations, the market spot prices for hemp biomass have fallen considerably during CY2019. Due to current market conditions, the Company has decided to not invest further capital in this venture in the near future. The Company has booked a \$1.7m expense for its share of losses in the joint venture during FY2019.



Europe & UK

Elixinol's growth strategy is to establish distribution arrangements in targeted locations across various channels to leverage the significant long-term opportunities within the global hemp market. During Q4 FY2019, the following distribution agreements were established:

In October 2019, Elixinol Europe signed a non-exclusive distribution agreement with Endo-Cbox Limited and Gigaicon International Ltd for various retail channels (excluding pharmacies and para-pharmacies) in Germany for a period of two years.

In November 2019, Elixinol Europe signed a non-exclusive distribution agreement with Christoforatos I.K.E. for sales of Elixinol branded products across various retail channels in Greece for a period of two years.

In December 2019, Elixinol Europe signed a non-exclusive distribution agreement with CBDLOUNGE, SRL for sales of Elixinol branded products across various retail channels in Romania for a period of one year.

Asia

Elixinol Europe has also extended its distribution strategy into Asia, with the following distribution agreements now established:

In October 2019, Elixinol Europe signed a non-exclusive distribution agreement with Endo-Cbox Limited and Gigaicon International Ltd. for sales of Elixinol branded products in Laos, Vietnam, Thailand, Cambodia and Malaysia for a period of two years.

In January 2020, Elixinol Europe signed an exclusive distribution agreement with Wellness Korea Limited for sales of Elixinol branded products across various retail channels in South Korea for a period of one year.

Elixinol Europe now has distribution agreements in the following locations:

| Country | Distributor | Comments |
|-----------------------------|--|---|
| Germany | MedVec | Exclusive distribution agreement for pharmacy and para pharmacy channels |
| Germany | Endo-Cbox Limited and Gigaicon International Ltd | Excludes pharmacies and para-pharmacies |
| Belgium and Luxembourg | 25 th Group | Exclusive distribution agreement for various retail channels |
| Netherlands and Switzerland | 25 th Group | Co-exclusive distribution agreement for various retail channels, including specialty and national retailers |



| | | |
|--|--|--|
| Finland | Harmonia Life Oy | Exclusive distribution agreement for various retail channels |
| Laos, Vietnam, Thailand, Cambodia & Malaysia | Endo-Cbox Limited and Gigaicon International Ltd | Non-exclusive distribution agreement |
| Greece | Christoforatos I.K.E. | Non-exclusive distribution agreement for various retail channels |
| Romania | CBDLOUNGE, SRL | Non-exclusive distribution agreement for various retail channels |
| South Korea | Wellness Korea Limited | Exclusive distribution agreement for various retail channels |

Japan

On 2 December 2019, the Company assessed various commercial alternatives for its Japanese business. As a result, Elixinol sold its 50.5% interest in Elixinol Japan to Mr Takeshi Sakurada who was one of the minority shareholders of Elixinol Japan. Further details on the key terms of the sale can be found on the Elixinol Global website under Investor Centre.

For more information please contact:

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About Elixinol Global

Elixinol Global Limited (ASX:EXL; OTC:ELLXF) is a global leader in the hemp derived CBD industry, innovating, manufacturing and selling hemp derived CBD products. The Companies simplified business model is focusing on:

- In the Americas, innovating, manufacturing and selling Elixinol branded hemp derived CBD products based in Colorado, USA
- In Europe & UK, educating and selling Elixinol branded and co-branded hemp derived CBD products based in Amsterdam, The Netherlands
- In Australia, providing stronger unified planning and support across the group to enable the various regional offices to focus on operational strategy and execution through its Global Executive Office based in Sydney, Australia
- Globally, expanding distribution of Elixinol branded hemp derived CBD products through reputable distributors as key markets open.

See more at www.elixinolglobal.com

This ASX Announcement was authorised by the Board of the Company

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Elixinol Global Limited

ABN

34 621 479 794

Quarter ended ("current quarter")

31 December 2019

| 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 | 6,705 | 33,102 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product manufacturing and operating costs | (7,909) | (46,685) |
| (c) advertising and marketing | (1,518) | (10,270) |
| (d) leased assets | (198) | (869) |
| (e) staff costs | (4,577) | (15,274) |
| (f) administration and corporate costs | (3,418) | (10,962) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 163 | 727 |
| 1.5 Interest and other costs of finance paid | (78) | (186) |
| 1.6 Income taxes paid | (20) | (209) |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Other (provide details if material) | - | 9 |
| 1.9 Net cash from / (used in) operating activities | (10,850) | (50,417) |

| | | |
|--|---------|----------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (1,366) | (10,335) |
| (b) businesses (see item 10) | - | - |
| (c) investments | (28) | (7,228) |

| Consolidated statement of cash flows | Current quarter A\$'000 | Year to date (12 months) A\$'000 |
|--|------------------------------------|---|
| (d) intellectual property / intangible assets | (587) | (1,341) |
| (e) other non-current assets | - | - |
| 2.2 Proceeds from disposal of: | | |
| (a) property, plant and equipment | 79 | 149 |
| (b) businesses (see item 10) | 13 | 13 |
| (c) investments | - | - |
| (d) intellectual property | - | - |
| (e) other non-current assets | - | - |
| 2.3 Cash flows from loans to other entities | - | - |
| 2.4 Dividends received (see note 3) | - | - |
| 2.5 Cash acquired/(disposed) on equity settled business combination | (1,005) | 209 |
| 2.6 Net cash from / (used in) investing activities | (2,894) | (18,533) |

| | | |
|---|--------------|---------------|
| 3. Cash flows from financing activities | | |
| 3.1 Proceeds from issues of shares | - | 50,000 |
| 3.2 Proceeds from issue of convertible notes | - | - |
| 3.3 Proceeds from exercise of share options | - | - |
| 3.4 Transaction costs related to issues of shares, convertible notes or options | - | (2,827) |
| 3.5 Proceeds from borrowings | - | - |
| 3.6 Repayment of borrowings | (418) | (777) |
| 3.7 Transaction costs related to loans and borrowings | - | - |
| 3.8 Dividends paid | - | - |
| 3.9 Other (provide details if material) | - | - |
| 3.10 Net cash from / (used in) financing activities | (418) | 46,396 |

| | | |
|---|----------|----------|
| 4. Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 Cash and cash equivalents at beginning of quarter/year to date | 34,287 | 42,922 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | (10,850) | (50,417) |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above) | (2,894) | (18,533) |
| 4.4 Net cash from / (used in) financing activities (item 3.10 above) | (418) | 46,396 |

| Consolidated statement of cash flows | | Current quarter A\$'000 | Year to date (12 months) A\$'000 |
|---|--|------------------------------------|---|
| 4.5 | Effect of movement in exchange rates on cash held | 247 | 4 |
| 4.6 | Cash and cash equivalents at end of quarter | 20,373 | 20,373 |

| 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 | 10,087 | 14,239 |
| 5.2 | Call deposits | 10,286 | 20,048 |
| 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) | 20,373 | 34,287 |

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

379

-

6.1 represents payment of non-executive director fees and executive director remuneration.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|--|---|
| 8.1 Loan facilities | - | - |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (please specify) | - | - |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |

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| 9. Estimated cash outflows for next quarter | A\$'000 |
|--|-----------------|
| 9.1 Research and development | - |
| 9.2 Product manufacturing and operating costs | (4,349) |
| 9.3 Advertising and marketing | (2,055) |
| 9.4 Leased assets | (149) |
| 9.5 Staff costs | (3,594) |
| 9.6 Administration and corporate costs | (2,711) |
| 9.7 Investments and other capital expenditure | (372) |
| 9.8 Total estimated cash outflows | (13,231) |

| 10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above) | Acquisitions | Disposals |
|--|--------------|-----------|
| 10.1 Name of entity | N/A | N/A |
| 10.2 Place of incorporation or registration | | |
| 10.3 Consideration for acquisition or disposal | | |
| 10.4 Total net assets | | |
| 10.5 Nature of business | | |

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.



Sign here:
Company Secretary

Date:31 January 2020.....

Print name:Teresa Cleary.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.