

ASX ANNOUNCEMENT

CELLMID NEWSLETTER

SYDNEY, Wednesday, 23 December 2020: In accordance with ASX Listing Rule 3.17.1 **Cellmid Limited (ASX: CDY)** is pleased to release the enclosed newsletter which is available on its website and is also being sent to the Company's distribution list which includes some shareholders.

Approved for release by the Board of Directors.

End

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Cellmid Limited (ASX: CDY)

Cellmid is an Australian company developing first in class, best in class, clinically validated anti-aging products for hair, skin and body. The Company's first collection is based on novel FGF5 inhibitors formulated as hair care products. The Company owns the Jo-Ju®, Lexilis®, evolis® and evolis® Professional brands and has operations in Australia, Japan and the USA. For further information, please see www.cellmid.com.au and www.evolisproducts.com.au.

Forward looking statements

This announcement may have forward-looking statements that are subject to risks and uncertainties. Such statements involve known and unknown risks that may cause the actual results, performance, or achievements of Cellmid to be materially different from the statements in this announcement. Actual results could differ materially depending on factors such as the availability of resources, regulatory environment, the results of marketing and sales activities and competition.



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MESSAGE FROM THE CEO

I am very pleased to report that we are heading into the new year with positive momentum, due to the underlying resilience of our core consumer health business and the recent signing of a 10- year Chinese distribution agreement with Ourui Health Management.

We have executed the pivot from a mixed business model to a sharply focused science-based consumer business and solidified the foundations for our innovative anti-aging brands in key markets, such as China, Korea and the US. We are now focused on anti-aging hair care, but our ambitions extend beyond that. Our vision is to create the next generation of anti-aging products for hair, skin and body that make aging a choice.

Our recently signed Asian master distribution agreement with Ourui Health for the Jo-Ju® and Lexilis® branded products is the result of several months of negotiations. It is a marriage between market leading science in anti-aging hair care and a potent Asian social commerce network. We will start receiving orders in early 2021, then manufacture specifically for these orders, given their magnitude.

Our deal with Ourui is truly transformational and it completes the foundation for our Chinese growth strategy. This deal complements the

Aeon agreement for the évolis® pharmacy products which, together with Ourui, could contribute up to 40% of our total revenue by FY2023.

There is a growing demand for natural functional cosmetics in China, and we are now well positioned to take advantage of this demand. China's rising middle class is expected to reach 550 million by 2023 and Cross Border Ecommerce (CBEC) allows international brands to reach this enormous market without the red tape for imported products.

Our new Director of Asian Business Development, Carolyn Heath, was responsible for the execution of the Chinese strategy for Akin (Haircare) and Dr LeWinn's (Skincare) and she is looking forward to the opportunity to build a global business for a scientifically validated hair loss brand.

As we are closing a challenging year in 2020, I would like to acknowledge the extraordinary job our teams in Sydney, Tokyo and Dallas have done during this year. I hope you enjoy this extended holiday edition of our newsletter.

Maria Halasz

A MARRIAGE MADE IN PREMIUM ANTI-AGING PRODUCT HEAVEN



Steven Ko, Founder Ourui Health

Cellmid, via its subsidiaries Advangen Limited and Advangen (Japan), signed an exclusive master distribution agreement with Ourui Health Management Limited for the distribution of our Japanese, Jo-Ju® and Lexilis® branded, anti-aging hair and skincare products.

This is the first international distribution agreement where two of our subsidiaries, Australia and Japan, will be working closely together on executing a single project. Marketing support will be run from Australia, whilst manufacturing will be done in Japan.

Steven Ko, the founder of Ourui Health Management Limited, is a serial beauty entrepreneur. His most recent success story is Pearlosophy, a natural skin care brand using pearl extract, which is sold in China through social commerce. The brand is now in its fifth year and has been enjoying exponential growth since its launch. Mr Ko has an impressive

resumé when it comes to beauty; he was one of the founders of Red Earth, which was sold through 600 retail stores in 45 countries before it was acquired by Esprit in 2001. Other successful brands in Mr Ko's stable include SkinVitals, the face masks sold in Sephora.

Our intention is to start in China, where demand for hair loss products is rapidly increasing, then extend to other Asian countries. Hair loss is the second most common hair concern following closely behind dandruff. Traditionally a problem for the 40 plus age group, hair loss is now prevalent in the younger, 20 plus, generation of men. The predominant 9-9-6 lifestyle, work from 9am to 9pm 6 days a week, is taking a toll on not only the body but the hair of a new generation of ambitious Chinese.

Social commerce is more advanced and digital technology is more widely adopted in China than almost anywhere else in the world. Live streaming by brands through WeChat and instant purchasing capabilities are features not easy to replicate. China's imitation economy has been well and truly transformed into an innovation economy, and nowhere else is this more evident than the almost 500 million middle class consumers expected to purchase premium goods by 2023.

The key parameters of the Ourui agreement include a ten plus ten year term, minimum annual purchase order requirements and standard FOB payment terms. We will actively support Ourui's marketing, but they will be responsible for funding campaigns and supporting their existing social network in the marketing process. Revenue from the deal will commence in early 2021 with full impact expected in FY2022.

GROWING APPETITE FOR NATURAL, FUNCTIONAL COSMETICS IN CHINA

Here we list six reasons why we are focused on the Chinese market for our **évolis® Jo-Ju® and Lexilis® hair loss and anti-aging hair care brands**

1. The sheer size of the market

The Chinese market is enormous and hard to put into perspective. China's population of 1.4 billion is equivalent to the population of North America, South America, Australia, New Zealand, and all of Western Europe combined. China's rising middle class is expected to reach 550 million within the next two years, which is 1.5 times the size of the entire US population. A small slice of the Chinese market can be significantly larger than the combined US and European market for the Jo-Ju® and Lexilis®.

2. The impact of the one child policy and the rise of consumer led demand

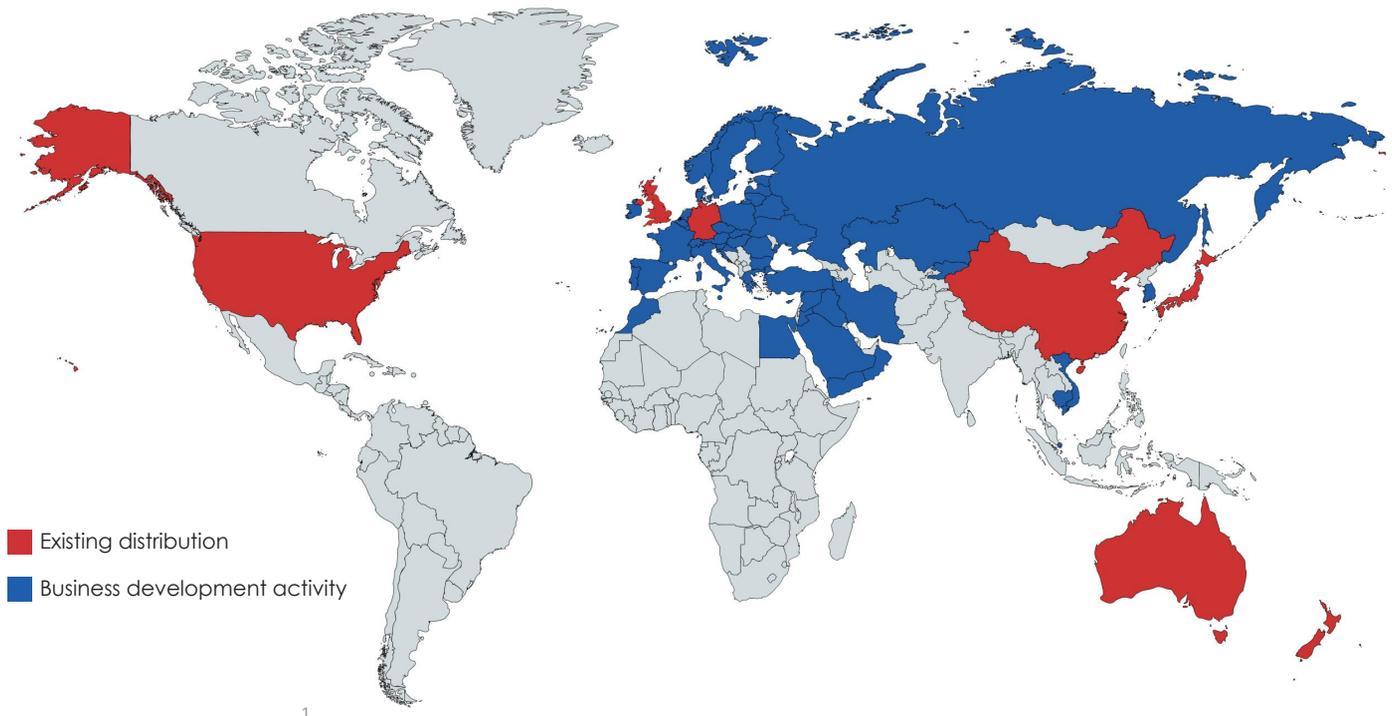
Unlike their parents the results of China's one child policy of Gen Z's and Millennials have grown up in the world of selfies, social media, influencers, and ecommerce. With six sets of doting parents and grandparents, they do not need to save for a house and have a high disposable income to buy goods and services. The internet has not only connected China to the rest of the world, but their technology has overtaken the USA and Europe and helped China pivot from a production led economy to a consumer led economy.

3. CBEC and the rise of Japanese and Australian brands

Cross Border ecommerce (CBEC) allows international brands to reach this enormous market relatively cost effectively and without the red tape inevitable for imported products. Brands can sell without going through the rigorous process and expense of filing for import permits and government approvals. Japanese brands, especially cosmetics, rank as the number one in consumer preference in China. Japan is known for its innovative, high-quality products and superb cosmetic formulations designed for the Asian market. Australia comes in as the 4th most popular country when it comes to preference for international brands. Known for its clean and green environment and high manufacturing and regulatory standards, categories that are popular include beauty, baby care, health and wellness, food and wine.

4. Chinese obsession with youth, beauty and luxury brands

Chinese women are well educated in beauty and start early, buying into anti-aging skincare well before their western counterparts. Beauty is very important for social status, obsessively so, and using luxury brands or expensive products is a way to demonstrate wealth and prosperity. Chinese are 'new consumers', and as a result, they tend to prefer higher-priced items because of their perceived better quality.



A survey by OC&C (Chinese research agency) found that 58% of Chinese people claimed that they want a more expensive product, while 36% of Chinese consumers upgraded to more premium brands when possible. Of the Chinese beauty consumers, 39% cited better ingredients and better functionality as the key reasons for their switch to premium brands.

5. The biggest shopping event in the world: 11/11

The recent 11:11 shopping festival which now extends over 11 days resulted in US\$74.1 billion sales (gross market value) almost doubling from last year's \$38.4 billion. On Tmall Global (CBEC) alone 26,000 brands from 84 countries participated. Almost 800 million Chinese shoppers snapped up over A\$1 billion of Australian goods during the first 24 hours of the world's biggest shopping event. Despite the issues China is raising with Australian imports, the CBEC platforms and the WeChat direct selling model are showing resistance from political tension as it operates in its own eco-system.

6. Hair loss is the number two hair concern amongst Chinese aged between 20-40

A recent survey of Chinese customers aged

20-40 showed that, after dandruff, hair loss is their most common hair concern. Young Chinese men start experiencing hair loss much earlier than before perhaps due to an increasingly stressful work life and environmental factors. They also become aware of hair loss earlier and their focus is much more intense given the pressure of looking great. Finally, the concept of prevention is much more accepted in the Chinese culture as an essential tool to maintaining youthful looks, including skin and hair.

News flash

Our évolis[®] Tmall store was officially opened on 22nd December 2020. Featuring our évolis[®] pharmacy products which are listed on the TGA, the store is fully operational and has commenced sales.

EUROPE - WE ARE READY FOR GROWTH IN 2021



Our évolis® Professional products have been registered for sale in Europe since April 2019, following which we have established a relatively small but growing business via our partnerships with Douglas Germany and QVC. We are planning to expand on this business in 2021 with a series of strategic initiatives:

New product launches

We are preparing to launch the Reverse and Promote Masks with Douglas in Q3 FY2021, after completing reformulation, repackaging and registration for the European market. The launch will be preceded by a Douglas influencer seeding event in January, presenting beauty influencers with the évolis® "Hair Hero" duo pack containing the Mask and the Activator. These are our most awarded and differentiated products and customer favourites in the Australian and US markets.

We are also in the final stages of import registration of the award-winning US manufactured évolis® Style + Treat Dry

Shampoo for the EU and UK. We have completed safety and label review, and registration is expected to be completed in early 2021. Once the permit is in hand, we expect to ship the product to Europe for launch in Q4 FY2021.

Amazon launch

Following the success of the Company's Amazon launch in the USA we will be further expanding this channel into the UK and Germany. First orders for both markets are expected in January 2021.

Supply chain and manufacture

We currently ship évolis® to Europe from Australia. To reduce the supply chain risk associated with long transit times we have begun the process of registering our USA made products for import into Europe. Shipping products to Europe from the USA significantly reduces transit times and the stock risk on expansion. We expect European regulatory review of the USA products to be completed in early Q3 FY2021.

In addition to manufacturing we are evaluating a number of additional third-party logistics options in key European distribution hubs to facilitate the expected growth in the region, and to allow the Company to readily meet the exacting demands of retailers such as Amazon and QVC.

New business development

We have partnered with the Hobé Group to facilitate business development in Europe, the UK, Middle East and Eurasia. The Hobé Group has over 25 years of business development experience in the beauty industry and maintains relationships with an extensive network of distributors and retailers across these regions. We expect our B2B business will continue to grow as a result, in particular with new prestige beauty retailers and professional salon distributors, with revenue impact in FY2022.





AUTOMATED INVENTORY SYSTEM BUILT INHOUSE

In preparation for the anticipated increase in sales and new products as part of our 3-year growth strategy the Cellmid team commenced the in-house upgrade of the inventory management system (AU and US) at the beginning of October 2020. Using their systems capabilities, and a lot of heavy lifting, the team has managed the complex project without any additional software investment.

The finance and manufacturing teams evaluated the existing SKU (stock keeping unit) range in line with our expectations for new product development, manufacturing and product turnover. SKU's were recategorized and a new standardised coding and recording system was introduced across the business to enable more specific referencing of inventory. Currently we carry up to 200 individual active finished goods (total 550 SKU items including work in progress and raw materials) in Australia and the US. As we outsource manufacturing and use third party providers in various physical locations in Australia and in the US,

coordinating manufacturing and fulfilment has become increasingly complex. It is critical that our system is able to accommodate such complexity, especially as we grow. The project has started to deliver a number of benefits for the business already:

- **We have improved business process efficiency by maintaining one central integrated inventory database with end to end processing (procurement to sale invoicing)**
- **We have improved accuracy of stock measurement**
- **Deeper/richer reporting and analysis such as sales and returns, gross profit by SKU**
- **Stock loss minimisation**
- **Improved forecasting and modelling**

We expect to continue to benefit from this major internal project driven by our Financial Controller, Matthew Dudek.

INTRODUCING OUR ASIA BUSINESS DEVELOPMENT DIRECTOR, CAROLYN HEATH



Carolyn Heath, Business Development Director Asia

TELL US ABOUT YOUR BACKGROUND, CAROLYN, WHAT DID YOU DO BEFORE JOINING CELLMID?

I have more than 25 years' experience within marketing, sales and business development, working across local and International brands in the health and beauty and consumer goods sectors. Brands that I have directly managed or have worked with, include Dr LeWinn's and Akin, Tommee Tippee, Continental, Max Factor and Johnson & Johnson's sun care range.

Prior to joining Cellmid in February 2020 I spent seven years as a senior leader at McPherson's. During this time, I led the housewares marketing team, implemented ecommerce across the business and was Head of International Sales and Export. My key achievement at

McPherson's was the development and execution of their Chinese strategy for Akin (Haircare) and Dr LeWinn's (Skincare).

WHY DID YOU JOIN CELLMID?

My interest in joining the business was both professional and personal. Firstly, given my international and Chinese experience I could see the opportunity to build a global business for a scientifically validated hair loss brand. Personally, I have suffered from alopecia for the last 10 years and have tried everything to restore my hair. I understand the personal journey women face and working with a brand backed by science, with an ethical approach to hair loss and anti-aging was important to me. It was also important that évolis[®] is the best anti-aging hair care product on the market.

WHAT IS YOUR ROLE AND WHAT ARE YOUR EXPECTATIONS FOR CELLMID'S BRANDS IN ASIA, PARTICULARLY IN CHINA?

As Business Development Director for Advangen I am responsible for building the company's Chinese business, working across our Japanese and Australian brands, Jo-Ju[®], Lexilis[®] and évolis[®]. China is an enormous market with a rising middle class expected to reach 550 million by 2023. Importantly for Advangen, hair loss was recently identified as the number two hair issue amongst Chinese men and women 25 – 40 years old. When you marry this with the popularity of Japanese and Australian brands in China, I am confident we can build a successful multimillion-dollar business in Asia.



SALON DISTRIBUTORS HOLD THE KEY TO THE PROFESSIONAL HAIRCARE MARKET IN THE USA

The US cosmetics market, including hair care products, shifted significantly over the last year. The momentum that has already seen online purchases increase in prior periods took traditional retail by storm in 2020. Most salons have their online stores, with professional hair products occupying the premium category within hair care. 90% of these products sold in salons are by third party distributors.

With over 368,000 licensed hair salons in the US partnering with these salon distributors makes sense to achieve more efficient growth for the évolis® Professional brand. Whilst the service industry, including hair salons, is not expected to return to normal until at least the end of 2021, building relationships with the distributors, together with online marketing partnerships such as the Behind The Chair campaigns, remain critical to build a solid foundation for our US business.

The évolis® brand lends itself to being sold through salons and we have been focusing on partnering with independently owned, education driven distributors. These are more likely to provide support in opening and maintaining salon customers. Our first partnership at the end of July 2020 with **Tru Beauty** was important as they have a large

coverage within the prosperous North East coast of the US and detail products to around 40,000 salons. A material component of their business is online training and education, a perfect match to our requirements.

New distributors in the US

Since the Tru Beauty agreement we have progressed on our salon strategy and signed two additional salon distributors; **Beauty Boxx** distributes in four states in the Rocky Mountain region and **Salon Only Sales** covers five Mid-Western states. This brings our total professional salon distribution to 20 out of 50 states (40%) with the goal of covering at least 60% of the country in FY2021. All of our distributors are focused on innovative brands that deliver real value for the customers while making the salon professional the focus.

With the pandemic not showing any signs of easing salons will continue to rely on their online product sales for income. This can only be a fraction of the opportunity for a relatively new brand, like évolis®. As vaccination is expected to start opening up the US economy in 2021 we will see a gradual uptake of évolis® in this market, with major revenue impact from May 2021.

BOARD & MANAGEMENT

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Ms Maria Halasz
CEO & Managing Director

Mr Bruce Gordon
Non-Executive Director

Dr Martin Cross
Non-Executive Director

Mr Dennis Eck
Non-Executive Director

Ms Sarah Eck-Thompson
(Alternate to Mr Dennis Eck)

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Chief Operating Officer (Cellmid)

Mr Matthew Dudek
Financial Controller

Mr Koichiro Koike
Managing Director of Advangen Inc. (Japan)

Mr Brian McGee
CEO (Advangen LLC)

Ms Carolyn Heath
BD Director Asia - Advangen International Pty Ltd

Ms Trish Frelan
Global Head of Marketing Advangen International Pty Ltd

Mr Gary McCaw
Director of Sales Advangen International Pty Ltd

About

Cellmid is a consumer health company listed on the Australian Stock Exchange (ASX: CDY). Cellmid's mission is to contribute to the healthy longevity of humanity. We develop scientifically validated innovative consumer products to help people live longer, in good health and with confidence.

Forward looking statement

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