

19 October 2021

Terragen

ASX Announcement

Quarterly Activities Report and Appendix 4C

for the three months ended 30 September 2021

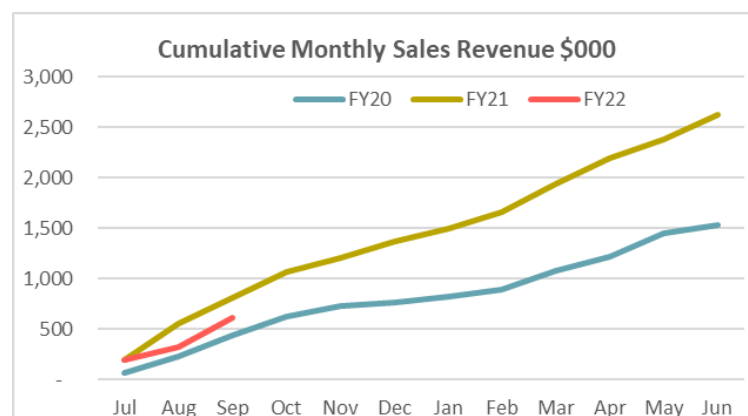
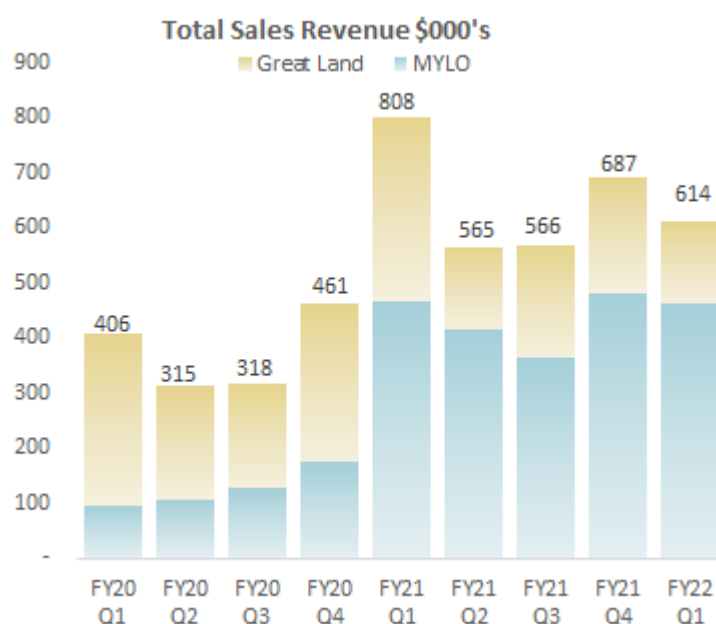
Terragen Holdings Limited (ASX:TGH) 19 October 2021 – Australian agriculture company Terragen Holdings Limited (“Terragen”) is pleased to provide an update on its activities for the three month period ended 30 September 2021.

Highlights

- Total **mature dairy cows on Mylo®** at 30 September 2021 of 65,400, an +8.1% net increase vs previous quarter, and representing market penetration of 4.6% of the Australian dairy cow market (or 1 in 22 dairy cows in the Australian dairy herd).
- **Annual recurring revenue (ARR¹)** of \$1.74m, representing net sales of Mylo® for mature cows. This figure does not include sales of Mylo® to the seasonal calf market.
- **FY22 YTD churn rate** of 0.8% of the customers contributing to the ARR.
- **Mylo® sales** for mature dairy cows up +10% compared to the same quarter last year.
- **Cash** reserves of \$10.7 million at 30 September 2021 positioning Terragen well for growth.
- **Chief Financial Officer and Company Secretary**, Miles Brennan, commenced on 30 August 2021.

Cumulative sales results

The following graph contains cumulative monthly net sales of all products in FY22 YTD compared with FY21 and FY20.



¹ Annual recurring revenue represents the net revenue of a mature cow taking Mylo® for 300 days per year.

Market commentary on sustainable agriculture

The topic of sustainability in agriculture in Australia and New Zealand is now firmly entrenched as a key driver for agricultural production, for food processing and for suppliers of farm inputs, such as Terragen. The following key developments are driving activity for Terragen:

- Food processing companies are moving with noticeable purpose, seeking to show progress on sustainability targets. The opportunity for Terragen is to assist in meeting these targets now, with Terragen's products commercially available for immediate use.
- Farmers are motivated by productivity and financial returns as the key issue in deciding to use probiotics.
- In Australia progress on greenhouse gas emission reduction is most active through voluntary carbon credit systems and direct reduction initiatives in production. This is informing Terragen's scientific research program.
- In New Zealand, the Government is imposing targets on carbon and nitrogen reduction in farming. In particular legislation has already been passed setting targets to reduce carbon emissions by 2030. Under the legislation agricultural greenhouse gas emissions will be subject to a carbon price from 2025 onwards. A partnership between the Government and the agriculture sector called "He Waka Eke Noa" has been established to prepare for this pricing mechanism. Terragen is well placed to market its products in New Zealand in this business environment.
- There is an emerging debate in the agricultural sector about what can be started now, to contribute towards sustainability goals, rather than what the goals in 2050 will be. Terragen's readiness to move now with its products is positioned well in this context.

Terragen's growing role in sustainable agriculture

Terragen develops, manufactures and sells probiotics for agricultural production. With eleven years of scientific development completed and products now commercially in the market, Terragen is well positioned to address key challenges facing agriculture, such as how to increase production using fewer chemicals, improving animal welfare and potentially reducing greenhouse gas emissions.

Terragen's products, *Mylo*® and *Great Land Plus*®, are chemical and antibiotic free, certified organic and they enable farmers to operate sustainably while increasing productivity.

Mylo® is a feed supplement for farm animals. Terragen's current focus is on sales of *Mylo*® for dairy cows and calves. In due course, Terragen will expand its markets for *Mylo*® to include beef cattle and sheep.

Great Land Plus® is a soil conditioner which improves the soil biology and improves root development of plants, increasing production. Terragen's focus is to market *Great Land Plus*® for dairy pastures and viticulture.

In this report Terragen explains its progress in sales in Australia and New Zealand as well as the research now being undertaken by Terragen in relation to reducing methane emissions from dairy cows.

Terragen's initial goal is to assist the dairy industry in Australia and New Zealand to improve its sustainability performance in the face of increasing pressure from consumers and governments to reduce environmental impacts.

Financial Highlights

Net sales of all products for the quarter were \$0.614 million.

It was pleasing to see that *Mylo*® sales for mature cows grew +10% vs PCP, offsetting lower sales of *Mylo*® for calves which was -17% vs PCP.

There was a 24% decrease of total sales on the prior comparative period (PCP). This is attributable to a decrease in sales of *Great Land Plus*®, reflecting the focus on *Mylo*® sales and the change in format for *Great Land Plus*® from 1 July 2021.

Lockdown restrictions (due to COVID-19) in the regions where Terragen sells its products prevented the Sales Team from visiting farms and distribution agents and this adversely impacted sales revenue.

Total sales of *Mylo*® were flat for the quarter (-0.9%) compared with the PCP, and -3.7% quarter on quarter.

Revenue from *Great Land Plus*® was down by -53% vs PCP. This is a consequence of the increased focus on *Mylo*® sales as well as the surplus of older version of *Great Land*® stock that was sold into the market up to 1 July 2021.

Operating expenditure for the September 2021 quarter of \$1.83 million was an improvement on the \$2.01 million spent in the June 2021 quarter. Expenditure reduction was largely driven by research and development project costs being lower in the quarter due to the timing of expenditure, and some moderate staff cost savings.

The Company made payments totalling \$0.128 million to related parties during the quarter for Directors' remuneration.

Attachment 2 provides a comparison of expenditure incurred in the period from 11 December 2019 (being the date the Company's securities commenced trading on the ASX) to 30 September 2021 in relation to the proposed Use of Funds disclosed in Terragen's Prospectus.

Operational Highlights

Sales

Sales of *Mylo*® for mature dairy herds continues to be Management's focus for growth.

Nine new dairy herds (net) joined the *Mylo*® pump program during the September 2021 quarter, bringing the total number of mature dairy cows on *Mylo*® daily to 65,400, or 1 in 22 Australian dairy cows. This corresponds to annual recurring revenue (ARR) of \$1.74 million.

With growing awareness of the importance of sustainability for farm production, Terragen is well positioned with its products and existing market share, to continue to grow sales of *Mylo*® to dairy farms in Australia and New Zealand.

Terragen introduces dairy farmers to *Mylo*® initially by supplying *Mylo*® as a feed supplement for dairy calves.

The Terragen Sales Team is focussing on:

- driving sales through the agent network (there are currently 198 agent stores contracted by Terragen throughout the dairy regions). Individual agent performance is being reviewed by Terragen to support top performers and manage underperforming agents;
- Generating sales to the top twenty Australian dairy farm groups, with additional technical support for these farms provided by Terragen, and both *Mylo*® and *Great Land Plus*® being promoted for sale to these customers; and
- demonstrating the productivity gain (or financial return on investment) for dairy farmers from using *Mylo*® in their animals.

New Zealand strategy

The General Manager New Zealand is progressing the strategy for sales of Terragen products there.

The total addressable market for dairy cows in New Zealand is 4.92 million cows (compared to 1.41 million dairy cows in Australia).

Market research commissioned by Terragen on probiotics for New Zealand dairy farms shows that there is strong acceptance that environmental improvements must be made on New Zealand dairy farms. The New Zealand Government has set ambitious carbon and nitrogen reduction targets for farmers there and Terragen's products are well positioned for growth in this environment.

Terragen is in discussions with major New Zealand distributors who will provide the channel to market for Terragen. It has been pleasing to observe the speed with which the major distributors have engaged with Terragen and progress on these discussions will be provided in subsequent quarterly releases.

Ongoing research and development projects

Terragen has a number of scientific studies underway and planned, including studies of the potential of *Mylo*® to reduce methane emissions from cattle.

The major study involves more than 150 cows on an operating dairy farm and is running for 18 months, building on Terragen's existing research and development knowledge, and providing further evidence of the benefits of *Mylo*® for dairy cows. Within the total cohort of 150 cows in the study, 50 cows are being studied in relation to the potential of *Mylo*® to reduce methane emissions. Any material findings from the study will be reported to the market when they become available.

In addition, Terragen has commissioned a second study, which is to be conducted at a major government research dairy farm, of the potential for *Mylo*® to reduce methane emissions from dairy cows. The results from this second study are intended to complement the research from the major study referred to above and build Terragen's expertise in reduction of greenhouse gas emissions. The results from the second study are expected in Q4 FY22.

Impact of COVID-19

Having previously navigated COVID-19 with negligible impact, the latest round of lockdowns on the east coast of Australia during the September 2021 quarter has had an adverse impact on Terragen's Sales Team activity. As a result of the lockdowns, the Sales Team has been prevented from meeting in person with farmers and distribution agents throughout the sales regions. Fortunately, the COVID-19 lockdown has not impacted Terragen's production or the supply chain.

About Terragen Holdings Limited

Terragen develops and markets probiotics for agricultural applications. Each product uses a unique combination of naturally occurring live microbe strains selected to help boost the productivity, welfare and resilience of farm production animals and address soil health. Terragen's aim is to increase farm productivity through the use of these products, whilst providing improved environmental sustainability that will be attractive to consumers.

Terragen has two products on the market in Australia and New Zealand: a microbial feed supplement for animals known as *Mylo*®, and a soil conditioner called *Great Land Plus*®.

For further information, please contact:

Terragen Holdings Limited	Authorisation and Additional Information
Travis Dillon Chairman media@terrigen.com.au	This announcement was authorised by the Board of Directors of Terragen Holdings Limited
Jim Cooper Managing Director and CEO + 61 417 321 145 jimc@terrigen.com.au	

Attachment 1

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

TERRAGEN HOLDINGS LIMITED

ABN

36 073 892 636

Quarter ended ("current quarter")

30 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	584	584
1.2 Payments for		
(a) research and development (direct and indirect)	(26)	(26)
(b) product manufacturing and operating costs	(238)	(238)
(c) advertising and marketing	(121)	(121)
(d) leased assets		
(e) staff costs	(997)	(997)
(f) administration and corporate costs	(449)	(449)
1.3 Dividends received (see note 3)		
1.4 Interest received	13	13
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid		
1.7 Government grants and tax incentives (FY21 R&D tax benefit)	459	459
1.8 Other (annual commissions paid to agents for FY21)	(153)	(153)
1.9 Net cash from / (used in) operating activities	(929)	(929)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(99)	(99)
	(d) investments	-	-
	(e) intellectual property	(13)	(13)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	-	-
	(j) investments	-	-
	(k) intellectual property	-	-
	(l) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(112)	(112)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	108	108
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(41)	(41)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	67	67

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	11,642	11,642
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(929)	(929)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(112)	(112)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	67	67
4.5	Effect of movement in exchange rates on cash held	(4)	(4)
4.6	Cash and cash equivalents at end of period	10,664	10,664

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	10,664	11,642
5.2	Call deposits	-	-
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)	10,664	11,642

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
128
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Represent payments made to Company Directors (executives and non-executives).

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities		
7.2 Credit standby arrangements	-	-
7.3 Other – finance lease liabilities	320	320
7.4 Total financing facilities	320	320

7.5 Unused financing facilities available at quarter end

-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Financing facilities represent liabilities under leasing arrangements determined in accordance with the requirements of AASB16. These leasing facilities are secured against assets with a written down book value of approximately \$0.312m as at 30 June 2021. All leases have a maturity date of less than 5 years.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(929)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	10,664
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	10,664
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	11

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

Not applicable

- Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

Not applicable

- Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Not applicable

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.

Date: **19 October 2021**

Authorised by: **The Board of Directors of Terragen Holdings Limited**

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Attachment 2

Comparison of expenditure in the period 11 December 2019 to 30 September 2021 to the Use of Funds in the Prospectus dated 18 October 2019

Use of Funds	Expenditure incurred since Listing \$000s (Note 1)	Use of Funds per Prospectus \$000s (Note 2)	Actual expenditure as a % of Proposed Use of Funds
Commercialisation - Australia and New Zealand	4,544	4,300	105.7
Market Development and Support - Animal Nutrition	580	4,100	14.1
Market Development and Support - Animal Health	598	3,900	15.3
Market entry and commercialisation - USA	6	1,100	0.5
Market entry and commercialisation - Europe	-	900	0.0
Formulations and technology development support	757	1,900	39.8
Administration costs and working capital	1,583	2,500	63.3
Payment of costs of the offer	1,468	1,500	97.9
	9,536	20,200	47.2

Note 1 – Represents expenditure incurred in the period from 11 December 2019 (being the date the Company's listing on the ASX) to 30 September 2021 analysed according to the categories of expenditure set out in the Use of Funds included at Section 7.3 of the Prospectus dated 18 October 2019.

Note 2 – Represents the Proposed Use of Funds for the 24-month period following listing as set out in Section 7.3 of the Prospectus dated 18 October 2019.

The Company confirms that its cash reserves are sufficient to implement its commercialisation and development objectives set out in the Prospectus. As noted in previous reports and taking into consideration current market conditions, the Company is focusing on growing sales in Australia and New Zealand and has deferred the previously planned expansion into the USA and European markets.