

20 July 2022

Terragen

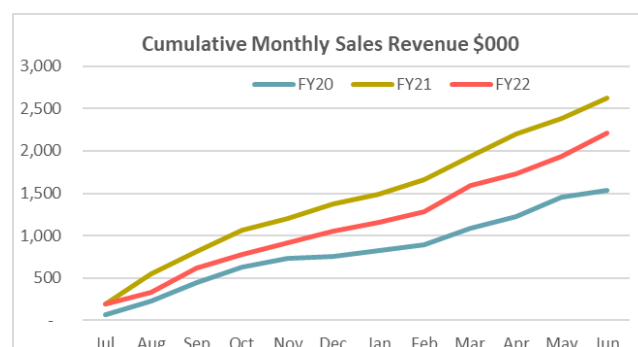
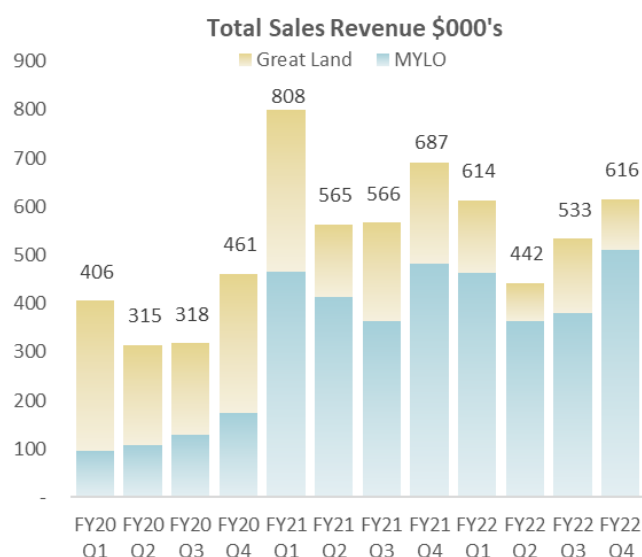
ASX Announcement

Quarterly Activities Report and Appendix 4C for the three months ended 30 June 2022

Terragen Holdings Limited (ASX:TGH) 20 July 2022 – Australian biological agriculture company Terragen Holdings Limited (“Terragen”) provides an activities update for the three month period ended 30 June 2022.

Highlights

- **Total Annual Recurring Revenue (ARR)** of \$2.22m, +3.2% vs previous quarter ARR of \$2.15m.
- **Mature Cow ARR** of \$1.7m, representing net sales of MYLO® for mature cows.¹
- **Calf ARR** of \$0.54m, representing net sales of MYLO® for calves.
- Total **mature dairy cows on MYLO®** at 30 June 2022 of 63,260, a 4.9% increase vs previous quarter.
- **Market penetration of 4.4%** of the Australian dairy cow market maintained (1 in 23 Australian dairy cows).
- **Farm Source (Fonterra) appointed as store agency network in New Zealand** and now stocking and selling MYLO® to New Zealand dairy farmers.
- **MYLO® sales** for mature dairy cows up +14% compared to the same quarter last year, corresponding with gaining traction in the New Zealand market.
- **FY22 YTD churn rate** of 13.2% of the customers contributing to the ARR.
- **Cash** reserves of \$6.7 million as at 30 June 2022, with strong cost base management. Cash burn for the quarter included the final payment for Ellinbank SmartFarm methane research.



Cumulative sales results

The graph opposite contains cumulative monthly net sales of all products in FY22 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 update on sustainable agriculture

Sustainability in agriculture in Australia and New Zealand continues to gain momentum for primary producers, food processors and farm input suppliers such as Terragen. The following are key developments:

- Further increases in milk pricing have been recorded with some prices reaching \$10/kg of milk solids. This provides opportunity for Terragen as farmers' return on investment for using MYLO® increases.
- Urea pricing is now forecast to maintain its relatively high commodity price. Terragen's soil conditioner GREAT LAND PLUS® is well positioned to benefit from the imbalance in relative pricing, especially during the Australian 2022 spring application cycle.
- Since Terragen's announcement on 21 April 2022 that MYLO® reduces methane in dairy cows, industry feedback to Terragen indicates appetite for action in reducing greenhouse gas emissions.
- In New Zealand, lobbying continues over initiatives required to deliver the nation's 2030 carbon reduction commitments. Terragen is maintaining open channels of communication with key industry stakeholders to leverage the potential opportunities that the regulatory environment may present.

Financial Highlights

Net sales of all products for the quarter were \$0.616 million, up 16% vs Q3 FY22, to deliver a FY22 net sales revenue figure of \$2.21 million.

Sales of MYLO® were \$0.511 million, a record quarterly revenue for this product, +\$30k (+6.3%) vs the prior comparative period (PCP).

MYLO® sales for mature cows grew by 14% vs PCP but MYLO® for calves declined by -5% vs PCP. Quarter on quarter, sales of MYLO® increased +35% vs Q3 FY22. This record revenue figure reflects the shoring up of domestic sales channels after COVID-19 challenges, as well as the opening up of sales channels in New Zealand.

GREAT LAND PLUS® sales declined by 50% vs the PCP, with the prior year comparator inflated by early customer buy-up ahead of pricing changes. Whilst Terragen is seeing some trading benefits from the high market price of urea (and other N fertilisers), the trading cycle for GREAT LAND PLUS® favours sell-through in Q1, as farmers apply the product to pasture at the beginning of spring.

Overall, there was a 10.4% decrease in total net sales vs PCP.

Operating expenditure for the June 2022 quarter was \$1.95 million, 2% lower than the \$1.98 million spent in the March 2022 quarter. This decrease in overall expenditure was achieved through strong management of indirect costs, which enabled the absorption of higher costs inherent in supporting the improved sales figure.

As detailed in Item 6 of the Appendix 4C at attachment 2 of this announcement, the Company made payments totalling \$0.110 million to related parties during the quarter for Directors' remuneration.

Terragen Holdings Limited

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Operational Highlights

Sales

Terragen's competitive advantage in the biological agriculture market is attributed to its independent scientific research which supports productivity and methane reduction claims for MYLO® and increased productivity from GREAT LAND PLUS®. The science forms the basis for a highly technical sales process, prioritising productivity improvements for farmers and confirming this with data.

The Terragen sales team that was appointed at the end of calendar 2021 is now performing well with a clear focus on growing sales in each Australian dairy region and New Zealand. Sales in the western district of Victoria and South Australia are strong and growing. Sales in northern Victoria, New South Wales, Gippsland and Tasmania have good potential to grow. Each region is resourced with a dedicated sales manager focussed on growing sales in that region.

New Zealand update

Terragen signed a distribution agreement with Fonterra's Farm Source stores during the quarter and commenced selling MYLO® to dairy farmers in New Zealand. Farm Source has stores throughout New Zealand and most New Zealand dairy farmers are members of the Fonterra Farm Source co-operative. This broad coverage of the market provides a strong system for supporting Terragen's sales of MYLO® in New Zealand.

In addition, Terragen now has two dedicated sales managers driving sales, one in the Waikato dairy region of the North Island (New Zealand's biggest dairy production region) and one in Canterbury in the South Island. It is pleasing to see the progress the new sales managers are making with new dairy herds being contracted to use MYLO®.

Ongoing research and development projects

Terragen announced its MYLO® methane-reducing scientific results from the Victorian Government's Ellinbank SmartFarm, in April 2022. In June 2022, Terragen's CEO and Chief Scientist attended the 8th Greenhouse Gas in Animal Agriculture Conference in Orlando Florida, where the Ellinbank results for MYLO® methane reduction were presented by the Ellinbank scientists, who were also in attendance.

A key outcome from this conference was that MYLO® was the only product presented which reduced methane emissions, while also increasing productivity through better feed conversion efficiency and increased milk production. The results presented for other methane reducing products showed no productivity gains in the livestock that were studied.

Terragen continues to run its major 18-month study on an operating dairy farm at Harrisville, Queensland which is building on Terragen's existing research and development knowledge, and providing further evidence of the benefits of MYLO® for dairy cows, including the potential of MYLO® to reduce methane emissions. The study has been running for 12 months. Material findings from the study will be reported to the market when they become available.

COVID-19 impact now reduced

Terragen is pleased to note that the easing of lockdown restrictions in the key sales areas of Victoria and Tasmania has allowed the sales team to resume in-person meetings without restriction.

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About Terragen Holdings Limited

Terragen develops and markets biological products 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 to 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 direct fed microbial supplement for animals known as MYLO® and a soil conditioner known as GREAT LAND PLUS®.

For further information, please contact:

Terragen Holdings Limited	Authorisation and Additional Information
Travis Dillon Chairman media@terragen.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@terragen.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 June 2022

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	755	2,412
1.2 Payments for		
(a) research and development (direct and indirect)	(270)	(794)
(b) product manufacturing and operating costs	(200)	(676)
(c) advertising and marketing	(63)	(485)
(d) leased assets		
(e) staff costs	(997)	(4,225)
(f) administration and corporate costs	(402)	(1,554)
1.3 Dividends received (see note 3)		
1.4 Interest received	6	32
1.5 Interest and other costs of finance paid	(5)	(12)
1.6 Income taxes paid	-	(334)
1.7 Government grants and tax incentives (FY21 and FY20 R&D tax benefits)	-	1,102
1.8 Other (annual commissions paid to customers for FY21)	-	(153)
1.9 Net cash from / (used in) operating activities	(1,176)	(4,687)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(2)	(166)
	(d) investments	-	-
	(e) intellectual property	-	(33)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	57
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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	(2)	(142)

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	28	142
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(126)	(268)
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	(98)	(126)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
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4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,962	11,642
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,176)	(4,687)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2)	(142)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(98)	(126)
4.5	Effect of movement in exchange rates on cash held	2	1
4.6	Cash and cash equivalents at end of period	6,688	6,688

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	6,688	7,962
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)	6,688	7,962

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
110
-

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.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other – finance lease liabilities

7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
470	349
470	349

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 \$0.326m as at 30 June 2022. During the quarter one new lease agreement was entered into for a motor vehicle in New Zealand.

All leases have a maturity date of less than 5 years.

During the quarter an insurance funding agreement was entered into for payment of the annual insurance premiums over 10 months, concluding in March 2023. The written down book value of this facility was \$0.144m as at 30 June 2022.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,176)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	6,688
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	6,688
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	6

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

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Date: **20 July 2022**

Authorised by: **The Board of Directors of Terragen Holdings Limited**
(Name of body or officer authorising release – see note 4)

Notes

- 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.
- 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.
- 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.
- 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.