

**ASX ANNOUNCEMENT**  
30 September 2022

## **FY22 Financial Results Commentary**

**EZZ Life Science Holdings Limited (ASX: EZZ)** (EZZ or the Company), is a genomic life science company with a mission to improve quality of life and human health. EZZ has a focus on genomic research and development to address four key human health challenges: genetic longevity, human papillomavirus (HPV), helicobacter pylori, and weight management. EZZ is passionate about investing in the future of consumer health through the development of e-commerce and distribution of high-quality products via omnichannel models across Australia, New Zealand, China and worldwide. EZZ presents its full year statutory accounts for the period ended 30 June 2022 (FY22).

### **Overview**

Despite the significant market uncertainties brought on by the pandemic related lockdowns in the first half of the financial year, the Company remained disciplined and continued to work towards its long-run growth objectives, which delivered a successful conclusion to FY22. The Company's diversification of its distribution channels led to a substantial improvement in revenue and cash flow from operations in 2H FY22 and when combined with the strong cash balance, the Company is in a robust financial position for future growth.

### **Highlights**

- Rapid revenue recovery in 2H FY22 from 1H FY22, with FY22 revenue totaling \$15,022,026
- Strong upturn in normalised EBITDA in 2H FY22 leading to total normalised EBITDA of \$1,760,741 in FY22
- Substantial improvement in cashflow from operating activities by 7.5 times, to \$1,901,730 in FY22 compared to FY21
- Significant optimisation of cashflow conversion rate from 0.1 in FY21 to 1.4 in FY22
- Strong cash position of \$10.5 million as at 30 June 2022, representing an 18% increase from 30 June 2021
- Nil external interest-bearing debt other than lease liabilities

### **Financial Performance**

#### **(a) Revenue drivers**

The Company's revenue declined by 33% from \$22,287,078 in FY21 to \$15,022,026 in FY22 largely due to the continuing impacts of the COVID-19 pandemic. However, the second half of FY22 saw a strong rebound in sales revenue for EZZ products, with a 24% increase compared to the previous corresponding period, as well as a 96% increase when compared to the first half of FY22.

**(b) Segment performance**

The revenue contribution from EZZ branded products reduced by 28% from \$11,369,044 in FY21 to \$8,138,851 in FY22, representing 54% of the total revenue in FY22. This was mainly driven by a combination of the following events:

- The revenue generated through Tmall Global as a key distribution channel, which contributed 43% of the total revenue in 2021, dropped by 76% to \$2,324,652 in FY22, representing only 15% of total revenue. The decrease in revenue through Tmall Global in 1H FY22 was progressively recovered in 2H FY22.
- On 8 June 2022, the Company commenced a cross-border e-commerce store on Douyin, mainland China's version of TikTok, as an alternate direct-to-customer channel to Tmall Global. Revenue growth from this new channel exceeded management's expectations in the first month of operation. Douyin is expected to become another key e-commerce platform along with Tmall Global and reduce the level of concentration on single e-commerce platforms in China's market.
- The Company expanded the EZZ branded product range by introducing seven new products with three products contributing 16% of total revenue in FY22 and four products launched at the end of FY22. L-Lysine Growth Capsule was introduced in July 2021 and represents another successful high margin product which contributed 27% to the revenue from EZZ branded products.
- Revenue generated from sales of EAORON branded products also reduced by 37% from \$10,918,034 in FY21 to \$6,883,175 in FY22, contributing 46% of total revenue in FY22. This was largely due to COVID-19's adverse impact on the trading footfall of retail outlets, which is the primary distribution channel of EAORON branded products across Australia and New Zealand.

**(c) Geographical performance**

Revenue from Australia and New Zealand represented 63% of the total revenue in FY22 as compared to 54% in FY21.

The revenue from international markets represented 37% of the total revenue in FY22 as compared to 46% in FY21. Revenue from international markets was primarily attributable to sales from China.

**(d) Profitability**

Gross margin decreased from 56% in FY21 to 50% in FY22.

- The average gross margin for EZZ branded products was 67% in FY22, compared to 82% in FY21, with the decrease resulting from a change in the revenue mix towards lower margin products. The increase in sales of lower margin products was part of the strategy to boost penetration into the grocery retailer market and create brand awareness. During the period advertising expenses were reduced significantly.
- The average gross margin on the EAORON branded products increased from 29% to 30% due to Australian United Pharmaceuticals Pty Ltd.'s promotional pricing on selected products and the focus on distributing higher margin products of the EAORON brand.

Although EBITDA (excluding other income) decreased by 35% from \$2,698,438 in FY21 to \$1,760,741 in FY22, the EBITDA margin remained largely in line with the previous year at 11%. Disciplined cost control and capital allocation remained a focus throughout the year, while advertising and marketing expenses were managed at approximately 20% of revenue in FY22.

	2022	2021
	\$	\$
Profit for the year	1,312,418	2,030,606
Other income	(141,853)	(174,589)
Depreciation and amortisation expense	118,341	125,518
Finance expense	4,436	10,752
Income tax expense	467,399	706,151
EBITDA (excluding other income)	1,760,741	2,698,438

*EBITDA is a non-IFRS measure and is presented to enable understanding of the underlying performance without the impact on non-operating items. Non-IFRS measures have not been subject to audit or external review.*

Management fees and other expenses increased in FY22 to support the development of eCommerce capabilities, maintain the Company's ASX listing and explore opportunities for future growth.

#### (e) COVID-19 Impact

The COVID-19 pandemic has been difficult for EZZ in terms of both sales and supply of product, but the Company has been agile in its response to these challenges and has been able to return a pleasing NPAT of \$1,312,418 in FY22. The Board would like to commend the Company on how it dealt with the following challenges:

- Both Federal and State Governments in Australia imposed lockdowns, encouraged workers to work-from-home, provided free vaccination against COVID-19, resulting in people restricting their movements and interaction wherever possible. In-person shopping sales of EAORON products predominately through pharmacies and specialist retailers was impacted with sales of \$6,883,175 being recorded this financial year. The Company's sales team remained proactive in its communication with suppliers and shipped product as soon as openings permitted. Pleasingly a large portion of the Australian population has now been vaccinated and, Australians are learning to live with COVID-19. Shops have reopened and shoppers are returning, and so EZZ believes the pandemic is coming to a natural end, and so its Australian sales are expected to continue to rebound moving forward.
- China's similarly imposed lockdowns, encouraged work-from-home, offered free vaccinations, but unlike Australia movement in some districts in China remains restricted, but even this is the exception now rather than the norm as it was throughout most of FY22. EZZ believes sales into China have returned with sales reaching \$400,000 of EZZ's Bone Growth Capsules during the mid-year 618 E-Commerce Shopping Festival. EZZ's market reach has also been bolstered in May 2022 when EZZ established its international store on Douyin (mainland China's version of TikTok) and with planned new product launches in FY23, sales into China are expected to continue to improve.
- Key to sales in China is advertising on the e-commerce platforms, but with areas within China under severe lockdowns during periods of FY22, the company anticipated lower sales volumes and reduced its advertising spend until China eased the lockdown measures. This cost-reduction strategy was a key factor in maintaining EZZ's profitability in FY22.

- EZZ has managed to launch seven new products this financial year, but with COVID-19 lockdowns in place and supply chain issues around the world, gaining access to a readily available supply of products and distributing them has been an issue. EZZ raised \$2.46m as part of its IPO in March 2021, with the intent of bringing the manufacturing process in-house within the intermediate term (two to five years) but given the supply chain issues highlighted, the company has decided to fast track this in-house manufacturing capability.

EZZ is now in a post-COVID-19 recovery period.

## **Financial Position**

The Company recorded a strong cash position of \$10,464,841 as at 30 June 2022, representing an increase of 18% from \$8,853,644 on 30 June 2021. The Company also maintained balance sheet strength with no debt, other than lease liabilities to allow for the flexibility to act when opportunities arise.

## **Cash flow**

Notwithstanding the decrease in revenue and profits, operating cash flow increased by 7.5 times from \$253,533 in FY21 to \$1,901,731 in FY22. This was mainly attributable to the Company's strategic decision to reduce advertising and marketing expenditure on the Tmall platform, as well as the reduction of payments to suppliers associated with the decrease in the sales of the EAORON branded products.

## **General Risks**

The Company was listed based on its January 2021 Prospectus which did identify a number of specific risks associated with investing in the Company. The Company is addressing the main risks as follows:

- **Reliance on customer demand for the EAORON products**  
The Company has the exclusive distribution rights of EAORON products to pharmacies, supermarkets and specialist retailers in Australia and New Zealand, and this brand continues to sell well in this market. In FY 20 EAORON branded products represented 96% of the Company's revenue and this sales concentration has changed and in FY 22 represented 46% of total revenue, de-risking this risk.
- **Reliance on Distribution Agreement with Australian United Pharmaceuticals Pty Ltd for the EAORON branded products**  
Australian United Pharmaceuticals Pty Ltd is a related party of the Company and the current distribution agreement will expire on 30 June 2023. This agreement is expected to be renewed for a consecutive 3-year term, subject to requisite Shareholder's approval.
- **New product risk for the EZZ branded products**  
The Company has launched 7 new products in FY 22 which have been well received by the market.
- **Loss of key customers**  
The Company used to rely on several main customers in the past. During FY22, by commencing its operation of official online stores and other e-commerce platforms, the Company develops more direct-to-customer channels and demonstrates a lower portion of revenue attributed from main distributors.
- **Reliance on manufacturers**  
The Company raised \$2.46 m as part of the IPO with the intent of bringing the manufacturing process in-house within the intermediate term (two to five years), but the Company has decided to fast track this objective.

CEO of EZZ, Qizhou Qin, commented, *"I am excited by what the EZZ team will achieve in FY23 as we continue to build a strong cross-functional support including genomic research, in-house manufacturing, omni-channel sales and marketing and in-house data analytics technology. We look forward to achieving our immediate and long-term targets and deliver value to our shareholders."*

*This announcement has been authorised by the Board of EZZ Life Science Holdings Limited.*

-ENDS-

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**About EZZ Life Science Holdings Limited**

EZZ Life Science Holding Limited (ASX:EZZ) is a genomic life science company with a mission to improve quality of life and human health. EZZ has a focus on research and development in gene technology to address four key human health challenges: genetic longevity, human papillomavirus (HPV), helicobacter pylori, and weight management. EZZ Life is passionate about investing in the future of consumer health through the development and distribution of high-quality health and wellness products including functional foods via an expansive range of distributor and stockist relationships and direct to consumers online across Australia, New Zealand, China and the rest of the world. [www.ezzlife.com.au](http://www.ezzlife.com.au)