

20 February 2023

Ecofibre Limited – Strategic Review Complete and 1H23 Results

HIGHLIGHTS

- Comprehensive strategic and operational review completed to deliver positive operating cash flow for FY24 from a portfolio of business lines able to deliver profitable growth.
- Key results of the strategic review
 - Focus on specific business lines that are cash flow positive in the near term with strong growth potential and exiting unprofitable lines
 - Annualised operating cost reductions of \$10.0m during 2H23 (~\$3.5m actual 2H23)
 - \$12.2m in one-off balance sheet impairments reflecting business restructure
 - Board reducing from five to four Non-Executive Directors, aligning with the tighter business
- 1H23 normalised NPAT loss of \$8.5m (\$17.6m incl. impairments) compared to 1H22 NPAT loss of \$6.7m
- The maturity of Term Loans associated with Barry Lambert extended approximately two years
- \$5.3m US Government receivable to support cash reserves in 2H23 (\$3.9m received in Feb 2023)

Ecofibre Limited (Ecofibre, Company) (ASX:EOF, ADR:EOFBY) provides an update on the completion of its Strategic Review and Appendix 4D Financial Results for 1H23.

The Company completed a strategic and operational review to deliver positive operating cash flow in FY24. Implementation of this review is well underway with the following outcomes:

- Exited unprofitable business lines – Australian plant science, Hemp Black finished goods apparel and 3D knitting
- Reset the cost base and balance sheet to respond to changing market conditions

CEO Eric Wang states, "The goal of the strategic and operational review was to prioritise achieving positive operating cash flow as well as applying higher hurdle rates for the allocation of resources and future investments. The strategic review results from the Company responding to changing market and economic conditions."

"Our refined strategy focuses spend and investment on our nearer-term cash flow positive business lines with attractive growth potential. As a result, we have exited the apparel and 3D knitting business in Hemp Black, and Australian plant science. We are also reviewing the timing to complete the Australian S3 OTC clinical study and partnering options for our gynecological disease portfolio."

"Going forward, Hemp Black will focus our specialist manufacturing resources on four business lines; medical yarns, turf yarns, new performance yarn clients, and /eco6 BioPallets."

"In Ananda Health, we continue to focus on establishing the attractive US Health Care Practitioner channel to complement our Independent Pharmacy channel. Our Ananda Food business is focused on expanding into the Australian pet markets via our equine and cat products. Additionally, we will continue to expand our hemp fibre planting seed business in the US."

Annualised cost savings of \$10.0m to be delivered during 2H23

Operating costs peaked during 1H23 due to increased investments in clinical R&D and inflationary impacts. The Company expects to deliver annualised savings of \$10.0m during 2H23, driven by a combination of cost reductions in continuing business units and the exit from certain loss-making business lines. These savings include \$8.0m of annualised cash savings across staff, R&D, and other overhead costs. Actual savings in 2H23 are expected to be \$3.5m.

Management has implemented most of these cost-saving initiatives and will complete the remainder of the program will be completed over the coming weeks.

One-off impairments of \$12.2m reflect outcomes of the strategic review

Asset impairments in Ananda Health were \$6.5m. They included impairments of \$4.8m in inventory to reflect the current market value of input materials, \$1.1m for manufacturing fixed assets to reflect near-term capacity requirements, and \$0.6m for software.

Asset impairments in Hemp Black were \$5.7m due to exiting the apparel and 3D knitting business. The impairments included \$1.7m of inventory, \$1.0m of fixed assets, and \$3.1m of intangibles related to patent work conducted at TJU.

Eric Wang states, "The management team has higher confidence in revenue growth following resetting the cost base and greater focus on the specific business lines with the most growth potential."

1H23 result: Normalised Net Loss After Tax \$8.5m (\$17.6m incl. impairments) up from 1H22 \$6.7m

1H23 Net Loss After Tax was \$17.6m, including \$12.2m in one-off impairments. Despite challenging trading conditions, revenues were up 6%, and normalised gross margins flat (54%) at the Group level.

Improvements in gross profit were offset by higher operating expenses (-\$2.1m) and the US government employee retention credit in the prior period (-\$1.4m).

2H23 cash flow is expected to be positively impacted by equipment sales from non-continuing business lines and the settlement of US Government receivables of \$5.3m (\$3.9m received in Feb 2023).

The remaining loan balance of AU\$8.0m from James & Cordelia Thiele Trust Fund, originally repayable on 15 July 2023, is amended to have AU\$1m repayable on 15 July 2023, followed by AU\$1.0m on 15 July 2024, and the remaining balance of AU\$6.0m on 15 July 2025.

The \$3.5m loan from the Lambert Superannuation Fund, originally repayable on 15 July 2023, is now repayable on 15 July 2025.

Appendix 4D Financial Results and a presentation of the 1H23 financial results are included.

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About Ecofibre

Ecofibre is a diversified industrial hemp company in the United States and Australia.

We operate three vertically integrated businesses focused on growth in natural health care, plant-based foods, and sustainable product solutions.

Ananda Food owns one of the world's largest collections of hemp seed genetics. It is a leading, low-cost manufacturer of high-quality hemp food products in Australia, including oil, seed, and proteins. See www.anandafood.com.

Ananda Health is a leading US manufacturer of hemp-based nutraceuticals for the professional market. We produce CBD products for human and pet consumption and topical health and beauty products. Our focus on high-quality, efficacious, and safe products is supported by a commitment to clinical research in Australia and the USA, focused on conditions including sleep, pain, anxiety, endometriosis, and gynecological diseases. See www.anandaprofessional.com. Ananda Hemp provides Australians with medicinal cannabis products as part of the SAS-B program. Ananda Hemp offers a range of products manufactured at our US facility under the S4 and S8 categories. See www.anadahemp.com.au.

Hemp Black is an industrial business focused on textiles and bioplastics, with specialist capabilities in yarn extrusion, knitting, and polymer compounding. We use innovative hemp-based composite technology to help de-carbonise consumer products and supply chains for various industries. See www.hempblack.com.

Authorisation

This document is authorised to be given to the Australian Securities Exchange (ASX) by the Board of the Company.



ECOFIBRE

1H23 Results

Eric Wang, CEO

Jonathan Brown, CFO

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AGENDA, 1H23 RESULTS

Item

Presenter

Overview

Eric Wang

Result

Jonathan Brown

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Eric Wang

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Eric Wang



REFINED STRATEGIC FOCUS & RESET COST BASE TO DELIVER POSITIVE OPERATING CASH FLOW FOR FY24

Ecofibre completed a strategic and operational review of all lines of business in the portfolio, resulting in the following:

- 1 Refined strategy focusing on specific lines of business that are profitable, scalable and have the greatest growth potential
- 2 Exit of certain business lines and the implementation of cost reduction initiatives that enables annualised savings of \$10m

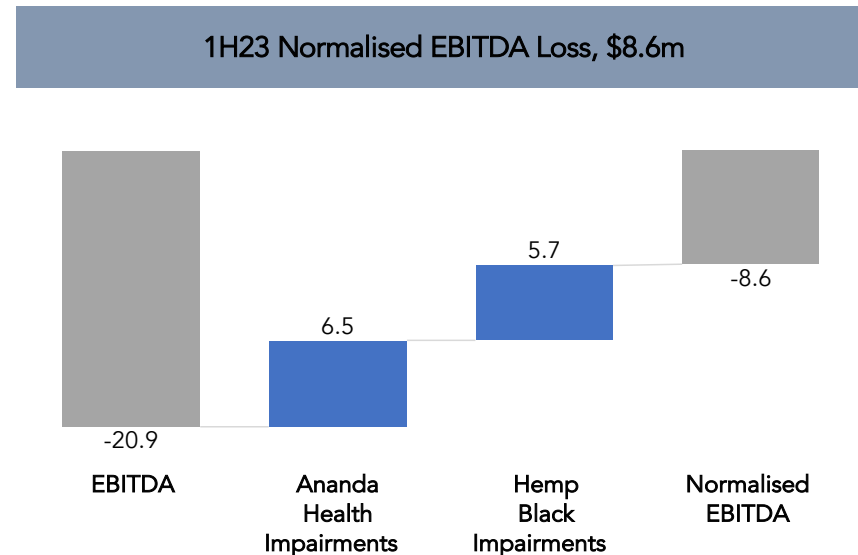
- 3 Balance sheet impairments reflect reset of capacity requirements, lower maintenance capex and market value of inventory

The following actions have been implemented as part of the review:

- More focused strategy - exited unprofitable business lines
 - Australian plant science
 - Hemp Black finished goods apparel and 3D knitting
- Cost review targeting \$10.0m (\$8.0m in cash, excluding depreciation and share-based payments) in annualised savings comprising;
 - Cash savings across staff costs, R&D and legal
 - 2H23 actual savings expected to be ~\$3.5m
- Balance sheet
 - Adjustments of \$12.4m as a result of the above exits, impairment of inventories and fixed / intangible assets
 - Term loans related to Barry Lambert have been extended by approximately two years
 - 2H23 cash flow is supported by US Government receivable of \$5.3m (\$3.9m received 14 Feb 2023)

ONE-OFF IMPAIRMENTS REFLECTING RESTRUCTURE TO A CASH FLOW POSITIVE, GROWING BUSINESS IN FY24

- \$12.4m non-cash impairments resets Ecofibre for an improved performance in 2H23 and into FY24 through lower costs and exit of non-core loss making business lines
- Achieving positive operating cash flow in FY24 is a priority
- Asset impairments in Ananda Health and Hemp Black
 - Ananda Health (\$6.5m)
 - WIP inventory (golden oil): \$4.8m, adjusted to current market value
 - Fixed assets: \$1.1m, reflects near-term capacity requirements for production assets
 - Intangibles (software): \$0.6m
 - Hemp Black (\$5.7m): exited apparel knitting business
 - Finished goods and WIP inventory: \$1.7m
 - Fixed assets: \$1.0m
 - Intangibles (IP): \$3.1m
- Greater focus on fewer specific business lines provides higher confidence in revenue growth



1H23 OVERVIEW

A\$m	1H23 Normalised ¹	1H23	1H22
Revenue	16.5	16.5	15.5
Gross margin	55%	15%	51%
Other income	0.1	(5.7)	1.5
Operating expenses	20.4	20.4	18.3
EBITDA	(8.6)	(20.9)	(6.5)
NPAT	(8.5)	(17.6)	(6.7)
Investment costs - capital	1.3	1.3	1.5
- R&D	3.6	3.6	2.9
Cash at Balance Date	7.4	7.4	5.9

Comments
<ul style="list-style-type: none"> • Normalised result, excluding non-cash impairments <ul style="list-style-type: none"> ➢ revenue growth despite challenging conditions ➢ increased EBITDA loss driven by: <ul style="list-style-type: none"> – lower Other Income due to US Government retention credit – peak in R&D and staff costs • Operating costs have peaked and are expected to decline materially in 2H23 • Investment costs <ul style="list-style-type: none"> ➢ Hemp Black capital investment ➢ Ananda Health clinical studies for AUS S3 and Gynecological diseases portfolio • Cash <ul style="list-style-type: none"> ➢ \$12.7m available, including \$5.3m US government receivables

¹1H23 normalised results are pre-asset impairment charges (non-cash)

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1H23 CONSOLIDATED PROFIT & LOSS

A\$m	1H23 Normalised ¹	1H23	1H22
Revenue	16.5	16.5	15.5
Direct costs	(7.4)	(13.9)	(7.6)
Gross profit	9.1	2.5	7.8
Other income	0.1	(5.7)	1.5
Operating expenses	(20.4)	(20.4)	(18.3)
Interest expense	(1.3)	(1.3)	(0.6)
Profit (loss) before income tax	(12.6)	(24.9)	(9.6)
Income tax benefit	4.1	7.3	2.9
NPAT	(8.5)	(17.6)	(6.7)
EBITDA	(8.6)	(20.9)	(6.5)

¹1H23 normalised results are pre-asset impairment / write off charges (non-cash)

Comments
<ul style="list-style-type: none"> Revenue growth in Hemp Black (+14%) and Ananda Health (+3%); Ananda Food (-7%) Direct costs include \$6.5m inventory impairment Normalised gross margin 54% - flat YoY: <ul style="list-style-type: none"> ➢ Ananda Health 67% ➢ Hemp Black 49% ➢ Ananda Food 29% Other Income <ul style="list-style-type: none"> ➢ Includes \$5.8m fixed & intangible asset impairment ➢ Prior period included final US Government Employee Retention Credit Operating expenses include higher staff costs (+\$1.1m) and R&D (+\$0.7m) Interest expense includes secured loan facility from July 2022

1H23 OPERATING EXPENSES

A\$m	1H23	1H22
Employees & contractors	8.0	6.9
Share based payments	0.6	0.9
Sales & marketing	0.8	1.1
Travel & accommodation	0.4	0.3
Equipment modification & maintenance	0.7	0.5
Short term leases	0.2	0.1
Legal & compliance	1.5	0.9
Accounting & audit	0.2	0.2
Depreciation & amortisation	2.7	2.5
Research & development	3.6	2.9
Other	1.9	1.9
Total operating expenses	20.4	18.3

Comments
<ul style="list-style-type: none"> • Employment costs <ul style="list-style-type: none"> ➢ Employees and contractors (+\$1.1m) <ul style="list-style-type: none"> – US health benefits (+\$0.3m) premium increase – Hemp Black wages, including NCP acquisition (+\$0.5m) – Ananda Health wages (+\$0.4m) ➢ Share-based payments (-\$0.3m) as share rights lapsed • Legal & compliance costs <ul style="list-style-type: none"> ➢ Defend and obtain favourable court orders in dispute with a former supplier ➢ Gynecological patent applications ➢ Facility lender fee • R&D costs <ul style="list-style-type: none"> ➢ \$2.2m medical research costs (+\$1.2m) mainly relate to gynecological study ➢ \$1.4m trials and testing, including final plant science costs in Australia • Other costs include IT systems, insurance, utilities, property taxes

1H23 SEGMENTS



ECOFIBRE

A\$m	1H23 Norm. ¹	1H23	1H22	1H23 Norm. ¹	1H23	1H22	1H23 Norm. ¹	1H23	1H22	1H23 Norm. ¹	1H23	1H22
Revenue	6.8	6.8	6.6	7.7	7.7	6.8	1.9	1.9	2.1	-	-	-
Gross Margin	67%	(2%)	58%	49%	27%	49%	29%	29%	31%	-	-	-
Gross Profit	4.7	(0.1)	3.8	3.7	2.1	3.3	0.6	0.6	0.6	-	-	-
Other Income	-	(1.7)	0.5	-	(4.1)	0.9	0.1	0.1	-	0.1	-	0.2
Operating Expenses	(9.2)	(9.2)	(8.4)	(6.2)	(6.2)	(5.5)	(1.5)	(1.5)	(1.1)	(3.5)	(3.5)	(3.4)
Interest Expense	-	-	-	-	-	-	-	-	-	(1.3)	(1.3)	(0.6)
PBT	(4.5)	(11.0)	(4.0)	(2.5)	(8.2)	(1.3)	(0.8)	(0.9)	(0.4)	(4.7)	(4.8)	(3.9)
Income Tax	-	-	-	-	-	-	-	-	-	4.1	7.3	2.9
NPAT	(4.5)	(11.0)	(4.0)	(2.5)	(8.2)	(1.3)	(0.8)	(0.9)	(0.4)	(0.6)	2.5	(0.9)
Investments												
R&D (inc. in opex.)	2.5	2.5	1.6	1.0	1.0	1.2	0.2	0.2	-	-	-	-
Capex	0.3	0.3	0.1	0.6	0.6	1.4	-	-	-	-	-	-

- Revenue +3%
- Operating costs +9% includes S3 project (\$0.6m), Gynecological portfolio (\$1.7m research & patent costs)

- Revenue +14%, driven by medical and turf line
- Operating costs +13% include investment in new BioPallets capability, higher staff costs and higher equipment maintenance costs

- Revenue -7%, lower food sales partially offset by higher fibre seed sales
- Operating cost increased \$0.4m equally split between higher depreciation, R&D and staff costs

- Operating costs in line with prior period - higher legal fees (\$0.4m Nubridge loan fees) mostly offset by lower staff costs
- Higher Interest expense due to loan facility

¹1H23 normalised results are pre-asset impairment / write off charges (non-cash)

1H23 BALANCE SHEET

A\$m	DEC 2022	JUN 2022
Cash & equivalents	7.4	7.3
Receivables	2.9	4.1
Inventory & biological assets	10.2	16.3
Other current assets	7.1	9.0
Total Current Assets	27.6	36.7
Intangible assets	52.8	56.2
Property, Plant & Equipment	43.8	47.0
Deferred tax assets	17.1	9.7
Total Non-Current Assets	113.7	112.9
Total Assets	141.3	149.6
Term loan	1.0	2.0
Trade & other payables	6.1	6.1
Total Current Liabilities	7.1	8.1
Term loans	25.2	16.8
Contingent consideration	14.4	14.0
Other	0.6	0.8
Total Non-Current Liabilities	40.2	31.5
Total Liabilities	47.4	39.6
Net Assets / Total Equity	93.9	109.9

Comments
<p>Cash & equivalents</p> <ul style="list-style-type: none"> \$3.1m cash investment in R&D during the period receipt of balance of loan of US\$6.4m and partial repayment of loan \$2.0m
<p>Inventory & biological assets</p> <ul style="list-style-type: none"> inventory impairment of \$6.5m includes \$4.9m for Ananda Health (golden oil reduced to current market value) and \$1.6m for Hemp Black (knitted apparel/yarns)
<p>Intangible assets</p> <ul style="list-style-type: none"> includes impairment of patents and software
<p>Property, Plant & Equipment</p> <ul style="list-style-type: none"> includes \$2.1m impairment of equipment related to Hemp Black apparel and Ananda Health
<p>Other current assets</p> <ul style="list-style-type: none"> movement reflects \$1.8m ERC receipts in 1H23
<p>Non-current liabilities</p> <ul style="list-style-type: none"> \$11.5m term loans extended c.2 years: \$1m repayable July 2023, \$1m July 2024 and the balance in July 2025 US\$10m secured loan repayable July 2024

1H23 CASH FLOW

A\$m	1H23	1H22
Opening Cash	7.3	8.6
Operating	(5.9)	(5.3)
Investing	(1.2)	(1.4)
Financing	6.9	4.0
FX Movements	0.3	-
Closing Cash	7.4	5.9

Comments
<ul style="list-style-type: none"> Operating cashflow <ul style="list-style-type: none"> targeting net annualised cash run rate saving of \$8.0m by July 2023 <ul style="list-style-type: none"> staff \$2.0m R&D (including staff) \$4.0m other (legal, professional fees) \$2.0m \$3.9m of \$5.3m US Government receivables received Feb 2023 with the remaining expected to be settled in 2H23 underlying 2H23 operating cash flow (excluding US government receipt) expected to materially improve Investing cashflows <ul style="list-style-type: none"> capital expenditure to continue at a similar level to 1H23 equipment sales expected to occur in 2H23

AGENDA, 1H23 RESULTS

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OUR STRATEGY

Business Unit	
 HEMP BLACK	<p>Turf Yarn</p> <ul style="list-style-type: none"> • Deliver on strong demand from existing clients. Explore turf yarn capacity increase into FY24 <p>Medical Yarn</p> <ul style="list-style-type: none"> • We have implemented restructuring initiatives aimed at increasing operational throughput <p>Yarn Extrusion</p> <ul style="list-style-type: none"> • Working with a client to replace existing feedstock yarn with next-generation biomass yarn. If successful, it will utilise most, if not all yarn extrusion capacity <p>Bio-Pallets</p> <ul style="list-style-type: none"> • Working with industrial client to introduce biobased pallets into its supply chain
	<ul style="list-style-type: none"> • Establish a new Health Care Practitioner channel for existing product capabilities. Stabilise revenues in a challenging independent pharmacy market. <ul style="list-style-type: none"> ➢ Leverage research outcomes to launch products into Practitioner channel in February 2023 ➢ MyEveryday CBD launched to augment Ananda Professional in the independent pharmacy channel • Advance and commercialise gynecological research, and continue the patent development process. Assessing partnering options to share commercial risk
	<ul style="list-style-type: none"> • Expand into the growing Australian pet market via horse feed distribution via specialty pet retailers • White-label cat litter rollout via one of Australia's leading retail chains • Expand our fibre planting seed business in the US

HEMP BLACK | SPECIALTY MANUFACTURING IN NORTH AMERICA



Medical Yarn

- Hemp Black is a long-term supplier of medical yarns for a range of knitted vascular grafts for Getinge Group
- Medical yarns are high margin FDA approved products
- High barriers to entry
- Demand currently outstrips capacity
- Product expansion opportunities over the long-term



Yarn Extrusion

- Working with key partners (North American global industrials companies) to finalise and commercialise a key input material in the apparel manufacturing market
- Environmental tailwind: transitioning apparel from fossil fuel based to biobased



Hemp Black Turf

- Ecofibre produces the high margin polypropylene yarn required to create higher specification synthetic turf systems
- Two key long-term customers with production running at capacity
- Opportunities to expand capacity
- Industry tailwinds include year-round use, no watering, mowing, pesticides, herbicides or fertilisers required, reducing maintenance costs



Hemp Black BioPallet

- BioPallet is manufactured from recycled plastic and biobased content
- Alternative to the traditional wood pallets utilised in the transport and logistics industry
- Very long growth runway: non-wood currently <5% of total market
- Positive environmental impact and US Federal Government support provide tailwinds

ANANDA HEALTH

The North American CBD market continues to be difficult and is forecast to decline over the next few years. Ecofibre is responding to these conditions by cutting costs where possible and stabilising revenues through product and sales channel expansion. Key Developments and value drivers for the future include:



Independent Pharmacy

- Ananda Professional is the key product range
- MyEveryday CBD brand aims to increase shelf space
- Focused on more successful pharmacies and multi-store chains



New Distribution channel

- Leverage research outcomes to launch multi-active based CBD products into Practitioner channel beginning February 2023
- Verbal approval and commitment form a distribution platform provider critical in servicing the Practitioner channel



Gynecological

- Gynecological cancer program is currently running ahead of schedule
- Active engagement with the US Patent and Trademark Office to work towards allowances and granting of patents
- Developing partnership to advance portfolio



Sleep / AUS S3

- Ananda Health S3 Sleep study did not show statistically significant improvement vs placebo. Evaluate potential follow-on crossover study to complete clinical trial

ANANDA FOOD

The hemp food market has become more competitive. Ananda Food's position in the landscape provides a competitive advantage to diversify into adjacent markets such as the growing pet sector.



Cat Litter

- Ecofibre has developed a hemp-based cat litter which delivers quality performance relative to existing market products and is eco-friendly
- Distribution agreement with a leading Australian retail chain is in late-stages of implementation with a pathway for scaling the product line



Horse Feed

- The horse feed product has been well received by early adopting customers, albeit in its early stages of commercialisation
- Continued development of distribution opportunities to expand product reach and market uptake

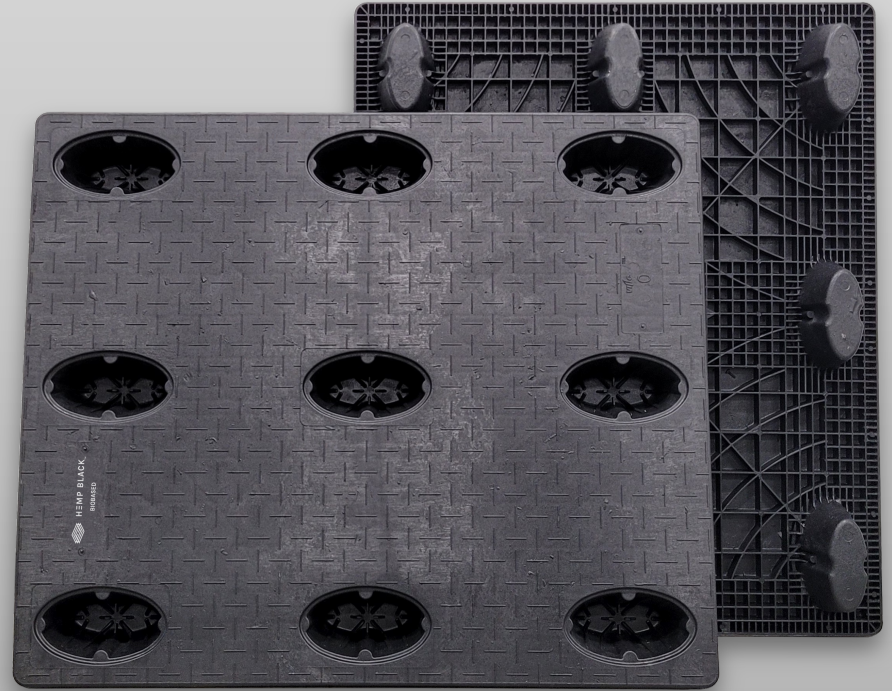


Expansion of Food Distribution

- Continued growth via new distribution channels and white label agreements
- Increase penetration in existing distribution channels

AGENDA, 1H23 RESULTS

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SUMMARY AND OUTLOOK

1. Very focused on becoming operating cash flow positive for FY24
2. Executing on Hemp Black growth opportunities
3. Reset business to respond to current conditions in US CBD market

