



# Skin Elements Limited **ASX ANNOUNCEMENT**

ASX CODE : SKN

2 May 2018

Wade Baggot  
Principal Advisor, Listing Compliance (Perth)  
ASX Compliance Pty Limited  
20 Bridge Street  
Sydney NSW 2000

Dear Wade

## **SKIN ELEMENTS LIMITED (SKN) - RESPONSE TO ASX QUERY DATED 23 APRIL 2018**

We refer to ASX's letter to SKN dated 23 April 2018 ("ASX Letter") and respond to each question as follows.

Unless otherwise defined, capitalised terms in this letter have the same meaning as given to those terms in ASX's previous letter to SKN dated 13 April 2018 ("Aware Query") and SKN's response to the Aware Query ("Response to ASX Queries").

### **AWARE**

- 1. Does SKN consider the Research Report, or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?**

No.

- 2. If the answer to question 1 is no, please provide a basis for that view, having regard to the Company's Response to ASX's Query?**

The Research Report was prepared by an independent third party and SKN understands that the Research Report was based entirely on publicly available information, including information relating to SKN, SKN's peers, and the global suncare industry.

As per the disclaimer appearing before the Research Report on SKN's website, the Research Report contains significant elements of subjective judgement and analysis and is based on a number of factors, and involves certain risks, uncertainties and assumptions.

SKN notes that Analyst Report Announcement was not marked as "price sensitive" by ASX upon release on the Market Announcements Platform

SKN further notes that between receiving the final version of the Research Report on 16 October 2017, and the end of the 2017 calendar year, there were no material movements in the price or volume of SKN's shares.

**3. If the answer to question 1 is no, why did SKN release the Analyst Report Announcement?**

SKN receives minimal coverage in the form of analyst and broker reports.

Having regard to:

- the launch of SKN's new website; and
- advice from SKN's public relations advisor,

SKN decided to publish a link to SKN's new website which contained the Research Report together with an appropriate disclaimer as a general communication to shareholders.

**4. Please explain why SKN delayed its announcement about the Research Report from 16 October 2017 (the date it admits receiving the final version of the Research Report) and 21 December 2017 (the date it released the Analyst Report Announcement).**

At the time that SKN received the final version of the Research Report, it did not believe that it contained price sensitive information and that GPC had prepared the Research Report for distribution to its own clients. SKN subsequently released the Analyst Report Announcement on 21 December 2017 after having regard to the bullet points outlined in SKN's response to Question 3 above.

**5. To SKN's knowledge, was the Research Report provided to any clients of GPC prior to the release of Analyst Report Announcement? If so, please advise who the Research Report was provided to.**

SKN understands that GPC provided the Research Report to clients of GPC prior to the release of the Analyst Report Announcement.

SKN is not able to confirm who received the Research Report from GPC during this time.

**6. Did SKN provide the Research Report to any person prior to the release of the Analyst Report Announcement? If so, please advise who the Research Report was provided to.**

SKN provided a copy of the Research Report to its public relations adviser and made hard copies of the Research Report available to attendees at SKN's annual general meeting held on 30 November 2017.

Given that SKN does not consider the Research Report to be price sensitive, SKN was not concerned that the Research Report was obtained by some people prior to the release of the Analyst Report Announcement.

## **INTERNAL FORECASTS**

**7. We note the Company's response to Question 9.1 that SKN has generated its own Internal Revenue Forecasts taking into account the following:**

- **SKN's historical track record of test marketing sales through existing distributors to the health sector in Australia, taking into account expansion into the pharmacy sector;**
- **SKN's historical sales through international wholesalers and importers with expanded product ranges into new markets;**
- **SKN's historical and anticipated online sales to personal consumers in Australia;**
- **SKN's financial position and financial performance since its most recent reporting date;**
- **the development of SKN's three main product technologies namely Soleo Organics Natural Sunscreen, McArthur pawpaw skincare, and EJNC natural cosmetics, with Therapeutic Goods Administration ("TGA") registrations and international registrations such as FDA and other international health regulatory agencies;**
- **the expansion progress of SKN's products with key wholesalers in key markets such as USA, Europe & China;**
- **the global suncare and natural skincare market, and opportunities derived from independent market research reports available publicly;**
- **SKN's market peers; and**
- **development and implementation of marketing strategies to increase sales.**

**Do SKN's Internal Revenue Forecasts take into account any information which is not publicly available?**

Yes. SKN's Internal Revenue Forecast takes into account its own assessment of the factors described above which includes key input data.

- 8. If the answer to question 7 is “no”, please set out where all of the information described in question 7 above is available publicly.**

N/A

- 9. If the answer to question 7 is “yes”, can SKN explain how GPC could derive similar Revenue Forecasts to SKN’s Internal Revenue Forecasts without having access to that information?**

SKN is unable to comment with any certainty as to how GPC could derive similar Revenue Forecasts to SKN’s Internal Revenue Forecasts.

SKN is unable comment on whether the underlying assumptions and sensitivities to the Revenue Forecast are similar in nature to those underlying SKN's Internal Revenue Forecast.

SKN does note that it has publicly described its simple and easily understood business model of increasing sales of a comparably small but defined range of all natural suncare and skincare products into identified Australian and international markets through a known network of distributors and wholesalers. SKN's product range is manufactured by approved contract production facilities providing easily scalable production volumes. Independent market size and profile statistical data for these markets is readily available. There are numerous peers with similar business models with which to compare SKN.

SKN also assumes that GPC has accounted for the value potential of the McArthur Acquisition (announced 5 May 2017) having regard to the previous performance of the McArthur Skincare range.

## **REASONABLENESS**

- 10. Please confirm our understanding that at the time the Research Report was published and at present, SKN had/has no binding agreements for the sale of suncare & skincare products that would result in SKN achieving the Revenue Forecasts or the Internal Revenue Forecasts.**

Confirmed.

- 11. Please advise what portion of SKN’s revenue comes from the McArthur Skincare range?**

SKN completed the acquisition of the McArthur Skincare range on 5 May 2017.

Based on SKN's financial statements for the half year ended 31 December 2017, SKN received a total of \$275,192 in revenue from the McArthur Skincare range. This revenue accounted for 69.9% of SKN's total revenue (\$393,476) for the period.

**12. Having regard to the information in SKN's quarterly cash report to 31 December 2017 and half yearly accounts to 31 December 2017, does SKN consider the Revenue Forecasts are still reasonable?**

Following discussions with ASX and having regard to ASIC Regulatory Guide 170: *Prospective Financial Information*, SKN does not consider that the Revenue Forecasts are still reasonable.

Accordingly, investors should not rely on the Revenue Forecast for their investment decisions

**ISSUE OF SECURITIES**

**13. To whom were the 1,165,000 fully paid ordinary shares issued on 30 October 2017 and for what corporate advisory services were the shares issued as consideration?**

| Recipient                      | Number of Shares | Nature of services  |
|--------------------------------|------------------|---|
| S3 Consortium Pty Ltd          | 165,000          | Management of digital online investor presence as pursuant to an engagement letter dated 20 April 2017. |
| Robin Armstrong                | 500,000          | Corporate services for assistance with securing memorandum with Ageless <sup>1</sup>                    |
| Indian Ocean Corporate Pty Ltd | 500,000          | Under corporate services mandate dated 4 January 2017   |

**Notes:**

<sup>1</sup> Refer to SKN's announcement titled "Skin Elements enters into MOU with Ageless Products" dated 17 October 2017.

**14. Was the recipient of the shares aware of the Research Report at the time they received the shares, or any time prior to the release of the Analyst Report Announcement?**

Luke Martino, a director of SKN, received drafts and the final version of the Research Report from GPC. Luke Martino is a director of Indian Ocean Corporate Pty Ltd.

S3 Consortium Pty Ltd, Robin Armstrong and Indian Ocean Corporate Pty Ltd were not aware of the Research Report at the time they agreed to the issue of the shares under their respective mandates, and to the best of SKN's knowledge they were not aware of the Research Report at the time they received the shares.

**15. Noting the content of the Cleansing Statement and that at the time of releasing the Cleansing Statement the Company was in possession of the final version of**

the Research Report, please confirm whether the Company has complied with s708(5)(e) (sic) of the Corporations Act 2001 in respect of statements in the Cleansing Statement.

Confirmed.

#### **GENERAL COMPLIANCE**

**16. Please confirm that SKN is in compliance with the Listing Rules, and in particular, Listing Rule 3.1.**

SKN confirms that it is in compliance with the Listing Rules, and in particular, Listing Rule 3.1.

**17. Please confirm that SKN's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SKN with delegated authority from the board to respond to ASX on disclosure matters.**

SKN confirms that the responses to the questions above have been authorised and approved in accordance with its published disclosure policy by the Board of SKN.

BY ORDER OF THE BOARD

Yours sincerely

**Craig Piercy**  
**Company Secretary**



23 April 2018

Mr Craig Piercy  
Company Secretary  
Skin Elements Limited  
32 Ord Street  
West Perth WA 6005

By Email: [craig@senatural.com](mailto:craig@senatural.com)

Dear Mr Piercy

**Skin Elements Limited ("SKN")**

ASX Limited ("ASX") refers to the following:

- A. The announcement titled Appendix 3B released on ASX's Market Announcement Platform ("MAP") at 7:24pm AEDT on 2 November 2017, clarified by an Appendix 3B released on MAP at 7:38pm on 3 November 2017, regarding the issue of 1,165,000 fully paid ordinary shares for "Corporate advisory services".
- B. The announcement titled "Cleansing Statement" released on MAP at 7:25pm AEDT on 2 November 2017 which contained, amongst other things the following statement:
  - 3. *As at the date of this notice, there is no information:*
    - a) *That has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules; and*
    - b) *that investors and their professional advisors would reasonable (sic) require, and would reasonably expect to find in a disclosure document, for the purpose of making an informed assessment of:*
      - i) *the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; or*
      - ii) *the rights and liabilities attaching to the Consideration Shares.*
- C. ASX's query letter dated 13 April 2018 ("ASX Query") and SKN's response released on MAP on 20 April 2018 ("Response to ASX Queries"), and in particular, SKN's response to questions 2, 8, 9.1 and 9.2:

**Question 2**

*When did SKN receive the final version of the Research Report from GPC for inclusion on SKN's website?*

*SKN received the final version of the Research Report from GPC on 16 October 2017.*

*SKN did not release the Analyst Report Announcement until 21 December 2017, because it was considering the final version of the Research Report.*



## Question 8

Was SKN the source of the Revenue Forecasts contained within the Research Report?

If it wasn't, what information did SKN provide to GPC for it to produce the Revenue Forecasts in the Research Report? In answering this question please identify which information was publicly available and which information was not.

*SKN was not the source of the Revenue Forecast contained within the Research Report. The Revenue Forecast was prepared by GPC based on their own independent assessment of SKN. SKN assumes that the Revenue Forecast contained within the Research Report was based on SKN's publicly available information, including ASX announcements by SKN.*

*SKN had several meetings and telephone calls with GPC to discuss and further clarify SKN's business and operations. However SKN ensured that it did not provide any information to GPC beyond information that is publicly available.*

## Question 9.1

The basis for the Revenue Forecasts.

*SKN has historically been in the research and development phase, including test marketing sales to position the SKN sunscreen and skincare technologies for commercialisation. Post listing on ASX, SKN has sought to develop these existing sales channels and continues to negotiate with commercial wholesale distribution agencies.*

*SKN primarily generates revenue through sales to wholesale distribution agents, who then on-sell direct to retailers and also has an online sales presence which is continuing to provide SKN with a steady source of revenue.*

*As announced by SKN on 5 May 2017, SKN completed the acquisition of the McArthur Skincare range from Tom McArthur Pty Ltd ("McArthur Acquisition"). The McArthur Skincare range historically produced over \$23 million in total revenue over the previous five years. SKN is in the process of building on these historical sales and exploiting synergies arising from the McArthur Acquisition, including increasing its product range and market presence.*

*SKN generates its own internal revenue forecasts ("Internal Revenue Forecasts") having regard to the following key information:*

- *SKN's historical track record of test marketing sales through existing distributors to the health sector in Australia, taking into account expansion into the pharmacy sector;*
- *SKN's historical sales through international wholesalers and importers with expanded product ranges into new markets;*
- *SKN's historical and anticipated online sales to personal consumers in Australia;*
- *SKN's financial position and financial performance since its most recent reporting date;*
- *the development of SKN's three main product technologies namely Soleo Organics Natural Sunscreen, McArthur pawpaw skincare, and EJNC natural cosmetics, with Therapeutic Goods Administration ("TGA") registrations and international registrations such as FDA and other international health regulatory agencies;*
- *the expansion progress of SKN's products with key wholesalers in key markets such as USA, Europe & China;*
- *the global suncare and natural skincare market, and opportunities derived from independent market research reports available publicly;*



- SKN's market peers; and
- development and implementation of marketing strategies to increase sales.

*A review of the Revenue Forecast in the Research Report has identified that the headings in the financial summary and forecast on page 13 of the Research Report contain an error.*

*The table contains the following headings:*

*2017-18 (E) 2018-19 (E) 2019-20 (E) 2020-21 (E) 2022-23 (E)*

*GPC have advised that the column headings should be as follows:*

*2018 2019 2020 2021 2022*

*Source: The above forecasted financial & assumptions from Gloucester & Portman Capital, forecasted assumption revenues, estimated for at end of the calendar periods of the stated period in the above table.*

*GPC has advised that the correction above has not impacted their assessment of the underlying Revenue Forecasts, rather is a clarification of the timing on their forecast of revenue.*

## Question 9.2

The material assumptions underpinning the Revenue Forecast.

*Other than reviewing the Research Report for factual accuracy, SKN was not involved in the preparation of the Revenue Forecast and therefore is unable to comment on the material assumptions adopted by GPC in preparing the Revenue Forecast.*

*SKN does note that the Revenue Forecast is materially consistent with its own Internal Revenue Forecast. SKN's Internal Revenue Forecast was based on the key information as set out in 9.1 above and the following key material assumptions:*

- a) *Baseline results of actual test market sales of available product lines achieved historically;*

*SKN has historically recorded over \$4 million in test market sales of its Soleo Organics natural sunscreen in the Australian health sector and selected international channels including USA, Japan, New Zealand, Hong Kong, Slovenia and United Kingdom.*

*McArthur pawpaw skincare has historically recorded \$23 million in sales mainly to Australian online consumers. McArthur recorded over \$15 million in sales in first two years of its development following national media coverage of its inventor, Tom McArthur. Since then, McArthur was required by the TGA to reformulate and register separately therapeutic claims by its products. This required revising its business strategies ultimately resulting in its acquisition by SKN and repositioning of the McArthur product range. SKN has not yet achieved online sales at rates similar to historical sales. However, SKN has commenced reorganising its website and is implementing strategies which are already resulting in sales at a significantly increased level.*

- b) *Assessment of market profiles and sizes for the SKN current and future products in Australia and internationally from independent industry recognised market research analysis;*

*As disclosed in SKN's prospectus dated 18 December 2015 ("Prospectus"), SKN is actively looking to expand its market penetration outside the health store sector, including into pharmacy retailers and supermarket and grocery retailers.*

*Independent market analysis indicates that the health store sector accounts for less than 10% of suncare sales in Australia annually, with over 43.7% of suncare sales through volume supermarkets and 39.7% attributable to the pharmacy sector. The Australian suncare market is estimated at A\$245 million each year (Source: Euromonitor).*

*Entry into the pharmacy channels followed by volume supermarket channels represents a potentially significant market penetration for SKN's suncare product range, potentially accounting for over 80% of revenue from physical store purchases.*

- c) *Modelling of prospective sales using these existing baselines and market size and penetration statistics;*

*By extrapolating existing baseline sales of Soleo Organics in the health sector to pharmacy channels, SKN expects that sales of Soleo Organics should substantially increase in the first year.*

*Initial penetration into selected existing international markets (for which SKN already has health registration and representation) including USA, Japan, New Zealand, Hong Kong, Slovenia and United Kingdom is based on sales experience.*

*By refreshing its website and online presence, SKN expects to achieve similar or better sales of McArthur pawpaw skincare products as achieve historically. SKN will also introduce McArthur to its international distributor network as noted above for initial test sales assessment.*

*SKN is anticipating to launch its Elizabeth Jane Natural Cosmetics (EJNC) product range with anticipated initial revenue from the EJNC product range based on historical test marketing program. Commercialising the EJNC product range was a key focus of SKN upon listing on ASX (refer to sections 2.5 and 3.2 of the Prospectus).*

*In the second year SKN expects to increase existing sales through existing channels through the execution of its marketing and branding programs to increase awareness of the benefits of its premium natural suncare products and the introduction of a natural "economy" version of its suncare formula for the volume supermarket channel.*

*In years three & four SKN anticipates to leverage of the established sales channels and expand into additional international markets for which it is currently seeking regulatory approval such as Brazil and China for all product ranges resulting in increasing sales revenue each year. Achieving product expansion into Brazil was a key aim of the SKN as outlined in section 5.1 of the Prospectus).*

- d) *comparison of these prospective sales targets to feedback and indicative order targets provided by existing and prospective wholesale, distributor and retailer channels to confirm reasonableness.*

*SKN has non-binding importation / distribution agreements with agencies in several key markets including Japan, New Zealand, Hong Kong, Singapore, Slovenia, China and Brazil. These agencies have undertaken initial test marketing sales of the Soleo Organics products and together with prospective new agencies provided indicative feedback on the development of markets in those regions which is consistent with SKN's estimation of market penetration for its products.*

*The assumptions upon which SKN's Internal Revenue Forecast is based are subject to significant uncertainties and contingencies, many of which are outside SKN's control, and may not be readily predictable.*

*The disclosure of the assumptions is intended to assist in assessing the reasonableness and likelihood of the assumptions occurring and the possible effect on the Revenue Forecast if they do not occur and is not intended to be a representation that the assumptions will occur.*

- D. The Company's quarterly cash report to 31 December 2017 and half yearly accounts to 31 December 2017, which reflect the following:
- SKN has recorded revenue from the sale of suncare & skincare products of \$393,476 for the half year ended 31 December 2017.
  - SKN has \$440,204 in inventories.

### **Request for Information**

Having regard to the above, ASX asks SKN to respond separately to each of the following questions and requests for information in a form suitable for release to the market:

#### **Aware**

- Does SKN consider the Research Report, or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
- If the answer to question 1 is no, please provide a basis for that view, having regard to the Company's Response to ASX's Query?
- If the answer to question 1 is no, why did SKN release the Analyst Report Announcement?
- Please explain why SKN delayed its announcement about the Research Report from 16 October 2017 (the date it admits receiving the final version of the Research Report) and 21 December 2017 (the date it released the Analyst Report Announcement).
- To SKN's knowledge, was the Research Report provided to any clients of GPC prior to the release of Analyst Report Announcement? If so, please advise who the Research Report was provided to.
- Did SKN provide the Research Report to any person prior to the release of the Analyst Report Announcement? If so, please advise who the Research Report was provided to.

#### **Internal Forecasts**

- We note the Company's response to Question 9.1 that SKN has generated its own Internal Revenue Forecasts taking into account the following:
  - SKN's historical track record of test marketing sales through existing distributors to the health sector in Australia, taking into account expansion into the pharmacy sector;*
  - SKN's historical sales through international wholesalers and importers with expanded product ranges into new markets;*
  - SKN's historical and anticipated online sales to personal consumers in Australia;*
  - SKN's financial position and financial performance since its most recent reporting date;*
  - the development of SKN's three main product technologies namely Soleo Organics Natural Sunscreen, McArthur pawpaw skincare, and EJNC natural cosmetics, with Therapeutic Goods Administration ("TGA") registrations and international registrations such as FDA and other international health regulatory agencies;*

- *the expansion progress of SKN's products with key wholesalers in key markets such as USA, Europe & China;*
- *the global suncare and natural skincare market, and opportunities derived from independent market research reports available publicly;*
- *SKN's market peers; and*
- *development and implementation of marketing strategies to increase sales.*

Do SKN's Internal Revenue Forecasts take into account any information which is not publicly available?

- 8 If the answer to question 7 is "no", please set out where all of the information described in question 7 above is available publicly.
- 9 If the answer to question 7 is "yes", can SKN explain how GPC could derive similar Revenue Forecasts to SKN's Internal Revenue Forecasts without having access to that information?

#### **Reasonableness**

- 10 Please confirm our understanding that at the time the Research Report was published and at present, SKN had/has no binding agreements for the sale of suncare & skincare products that would result in SKN achieving the Revenue Forecasts or the Internal Revenue Forecasts.
- 11 Please advise what portion of SKN's revenue comes from the McArthur Skincare range?
- 12 Having regard to the information in SKN's quarterly cash report to 31 December 2017 and half yearly accounts to 31 December 2017, does SKN consider the Revenue Forecasts are still reasonable?

#### **Issue of Securities**

- 13 To whom were the 1,165,000 fully paid ordinary shares issued on 30 October 2017 and for what corporate advisory services were the shares issued as consideration?
- 14 Was the recipient of the shares aware of the Research Report at the time they received the shares, or any time prior to the release of the Analyst Report Announcement?
- 15 Noting the content of the Cleansing Statement and that at the time of releasing the Cleansing Statement the Company was in possession of the final version of the Research Report, please confirm whether the Company has complied with s708(5)(e) of the Corporations Act 2001 in respect of statements in the Cleansing Statement.

#### **General Compliance**

- 16 Please confirm that SKN is in compliance with the Listing Rules, and in particular, Listing Rule 3.1.
- 17 Please confirm that SKN's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SKN with delegated authority from the board to respond to ASX on disclosure matters.

Once ASX has received and analysed the information above, it is likely to make further enquiries of SKN.

In providing the information above, ASX would remind you that an officer or employee of a listed entity who gives, or authorises or permits the giving of, materially false or misleading information to ASX:

- knowingly, breaches section 1309(1) of the Corporations Act, which is a criminal offence punishable by a fine of up to 200 penalty units and/or imprisonment for up to 5 years; or

- without taking reasonable steps to ensure that the information was not false or misleading, breaches section 1309(2) of the Corporations Act, which is a criminal offence punishable by a fine of up to 100 penalty units and/or imprisonment for up to 2 years.

### **When and where to send your response**

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than **7.00 a.m. WST on Thursday, 26 April 2018**.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1, and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Entity's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph. If any of the information requested under this letter requires immediate disclosure, SKN should request a trading halt while it prepares an announcement to disclose the information.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at [tradinghaltspert@asx.com.au](mailto:tradinghaltspert@asx.com.au). It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### **Listing Rule 3.1**

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

In responding to this letter, you should have regard to SKN's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that SKN's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

*[sent electronically without signature]*

Wade Baggott  
**Principal Adviser, Listings Compliance (Perth)**