

Terragen

ASX Announcement

Quarterly Activities Report and Appendix 4C for the three months ended 31 March 2022

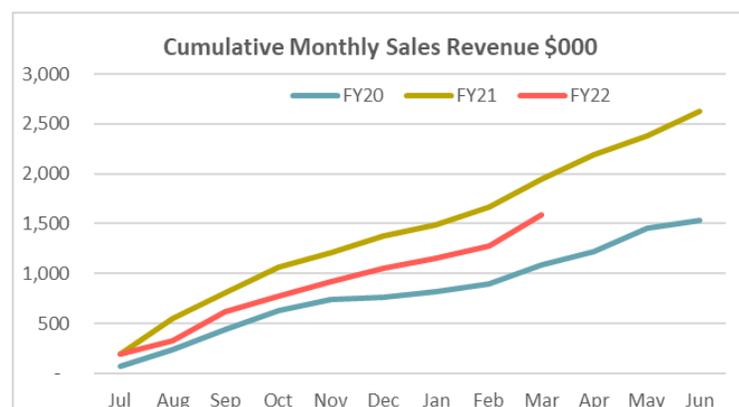
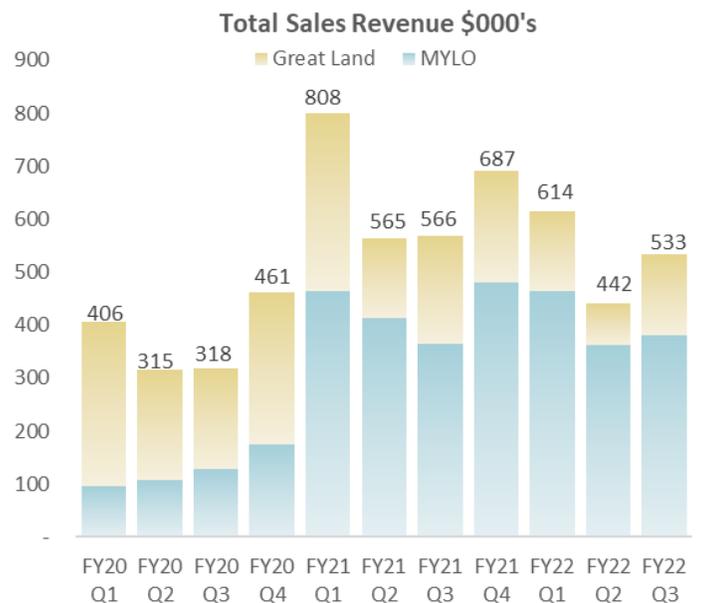
Terragen Holdings Limited (ASX:TGH) 28 April 2022 – Australian agriculture company Terragen Holdings Limited (“Terragen”) is pleased to provide an update on its activities for the three month period ended 31 March 2022.

Highlights

- **Total Annual Recurring Revenue (ARR)** of \$2.15m, +0.1% vs previous quarter.
- **Mature Cow ARR** of \$1.60m, representing net sales of *Mylo*® for mature cows¹.
- **Calf ARR** of \$0.55m, representing net sales of *Mylo*® for calves.
- Total **mature dairy cows on *Mylo*®** at 31 March 2022 of 60,320, a -2.5% decrease vs previous quarter, and representing market penetration of 4.4% of the Australian dairy cow market (or 1 in 23 dairy cows in the Australian dairy herd).
- **FY22 YTD churn rate** of 12.3% of the customers contributing to the ARR, 7.0 percentage points adverse to the previous quarter.
- ***Mylo*® sales** for mature dairy cows up +16% compared to the same quarter last year, as benefits of new sales team coincided with easing of COVID-19 restrictions.
- **Cash** reserves of \$8.0 million as at 31 March 2022, as Terragen reduced cash burn in the quarter, including the receipt of \$643k of R&D tax refund.

Cumulative sales results

The graph opposite 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 update on sustainable agriculture

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

- Initial opening average milk pricing for milk solids in the coming financial year is at a record high and will likely increase given milk shortages. This signals the extent to which demand is outstripping supply and further motivates farmers to improve productivity in their herds. The opportunity for Terragen is to be science-forward with the positive productivity impacts of its products, providing solutions to farmers seeking greater return on investment.
- Similarly, high commodity pricing for urea-based fertilisers is prompting farmers to consider alternative soil treatments. Products like Terragen's Great Land Plus® are well positioned to benefit from the systemic imbalance in relative pricing, which is likely to continue for some time.
- Corporate players in the agricultural industry, from primary producers and processors through to retailers, are increasingly adopting strong ESG frameworks including stated sustainability targets. Products like *Mylo*® and Great Land Plus® which have proven productivity, animal welfare, and now methane reducing benefits, have the potential to position Terragen at the forefront of the sustainable agriculture movement.
- In New Zealand, the "He Waka Eke Noa" partnership between the Government and the agriculture sector is readying the New Zealand agriculture industry for the implementation of a carbon price from 2025 onwards. The Government is also considering other initiatives with the intention of reducing carbon and nitrogen usage in farming. The establishment of Terragen's sales team in New Zealand, and ongoing discussions with industry stakeholders, means Terragen is well placed to leverage this changing business environment in New Zealand.

***Mylo*® feed supplement reduces methane in dairy cows**

As Terragen announced to the market on 21 April 2022, findings from the study conducted at the Ellinbank SmartFarm in Victoria have shown that cows treated with a daily dose of *Mylo*® showed lower methane emissions than a control group.

These findings further validate *Mylo*® as one of the tools a livestock producer can use to increase productivity, reduce methane emissions and meet sustainable agriculture goals.

Financial Highlights

Net sales of all products for the quarter were \$0.532 million, up 20% vs Q2 FY22, to deliver a YTD net sales revenue figure of \$1.59 million.

There was a 5.4% decrease in total net sales vs the prior comparative period (PCP).

Lockdown restrictions (due to COVID-19) eased in Q3, although the benefit to sales was delayed with very low sales in January and February 2022. However, March 2022 showed the combined impact of the new sales team going live and easing lockdown restrictions to deliver the highest net revenue period of FY22.

Overall sales of *Mylo*® were \$0.379 million, +\$16k (+4.4%) vs PCP. *Mylo*® sales for mature cows grew by 16% vs PCP but *Mylo*® for calves was -15% vs PCP. Quarter on quarter, vs Q2 FY22 sales of *Mylo*® were up +4.6%.

Great Land Plus® sales declined by 24% vs PCP, reflecting the focus on *Mylo*® sales and the change in pricing and format for Great Land Plus® from 1 July 2021. However, revenue from *Great Land Plus*® was up vs prior quarter by 95.2%. This recovery was aided by the high market price of urea (N) fertiliser, which motivated farm trials of *Great Land Plus*®.

Operating expenditure for the March 2022 quarter of \$1.98 million was 19% lower than the \$2.44 million spent in the December 2021 quarter. The expenditure decrease was largely driven by the phasing of expenditure for research and development projects, principally the Ellinbank SmartFarm study. Q3 also saw normalisation of staff costs after the provision adjustment for Fringe Benefits Tax taken in Q2.

As detailed in Item 6 of the Appendix 4C at attachment 1 of this announcement, the Company made payments totalling \$0.121 million to related parties during the quarter for Directors' remuneration. This is significantly down on the \$0.209 million of Q2, which included a \$77k catch up payment for non-executive director fees earned in prior quarters but not paid.

Operational Highlights

Sales

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

Terragen continues to invest time and resources into the technical process required to gain the trust of the end users. The sales team that was assembled at the end of calendar 2021 has now completed their induction into Terragen's science and are taking this to customers and stakeholders.

Further, Terragen has stepped up its technical sales capability by bringing a veterinary scientist onto the team who is tasked with ensuring all of Terragen's sales and marketing materials communicate the function and benefits of *Mylo*® in an appropriate manner, including the commission of training videos for this purpose.

Terragen has also stepped up its marketing efforts in the area of social media with the intention of reaching customers at a place and time that is convenient for them.

All of these additional activities became active during the quarter, which resulted in noticeably improved revenue figures in the March 2022 period, and drove a positive quarterly revenue result of \$533k.

New Zealand update

The General Manager for New Zealand is moving to implement the sales strategy for Terragen products there.

This includes working with key industry partners to have *Mylo*® on shelf and available for New Zealand farmers, establishing agricultural relationships to maximise the uptake of *Mylo*® during key calving periods, as well as working with agronomists to increase the uptake of Great Land Plus®.

Ongoing research and development projects

Terragen has a number of scientific studies underway and planned, including further studies into *Mylo*®'s capability to reduce methane emissions from cattle.

The major study at Harrisville, Queensland is an 18 month study, 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. It is the biggest study in terms of cohort ever run by Terragen. Any material findings from the study will be reported to the market when they become available.

Recovery from COVID-19

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, which have been key to driving acceptance of this new segment of biological agricultural products. As previously noted, Q3 started slowly but showed strong sales momentum in the March period to exit the quarter with a strong month.

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 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 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")

31 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	443	1,657
1.2 Payments for		
(a) research and development (direct and indirect)	(108)	(524)
(b) product manufacturing and operating costs	(87)	(476)
(c) advertising and marketing	(157)	(422)
(d) leased assets		
(e) staff costs	(1,105)	(3,228)
(f) administration and corporate costs	(341)	(1,152)
1.3 Dividends received (see note 3)		
1.4 Interest received	6	26
1.5 Interest and other costs of finance paid	(5)	(7)
1.6 Income taxes paid	(334)	(334)
1.7 Government grants and tax incentives (FY21 and FY20 R&D tax benefits)	643	1,102
1.8 Other (annual commissions paid to customers for FY21)	-	(153)
1.9 Net cash from / (used in) operating activities	(1,045)	(3,511)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(3)	(164)
	(d) investments	-	-
	(e) intellectual property	-	(33)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	39	57
	(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	36	(140)

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	-	114
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(59)	(142)
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 (9 months) \$A'000
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(59)	(28)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	9,030	11,642
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,045)	(3,511)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	36	(140)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(36)	(28)
4.5	Effect of movement in exchange rates on cash held	1	(1)
4.6	Cash and cash equivalents at end of period	7,962	7,962

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	7,962	9,030
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)	7,962	9,030

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	121
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

**Current quarter
\$A'000**

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	373
7.4	Total financing facilities	373

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 \$0.349m as at 31 March 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.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,045)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	7,962
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	7,962
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	8

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

1. 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

2. 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

3. 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: **28 April 2022**

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.