

16 January 2020

Ecofibre Limited

EOF 4C - Revenue up 106% pcp

Q2 FY20 HIGHLIGHTS

- Revenue up 106% on prior corresponding period (pcp)
- Major distributors beginning to supply Ananda Health products to pharmacies as result of increasing confidence and clarity on the regulatory status on hemp-derived CBD products
- Profit guidance for H1 FY20 re-affirmed to deliver over \$6m of net profit after tax
- Grand opening for new US headquarters and processing facility in April 2020 – a 10-month program of work to build a LEEDS Platinum certified facility. This represent the highest global standard in building sustainability

Ecofibre Limited (Ecofibre, Company) (ASX:EOF) is pleased to provide its Appendix 4C Quarterly Report for the three months ended 31 December 2019 (Q2 FY20), including a brief update on the Company's trading performance.

Q2 FY20 revenue up 106% on pcp

Unaudited revenue for Q2 FY20 was \$14.7m, up 106% on the prior corresponding period and up 2% on the prior quarter.

CEO Eric Wang stated, "The Company delivered a high-quality result in a highly competitive US CBD market. This quarter was significant as the Company added several major distributors and buying groups as a result of increasing confidence in participating in the hemp-derived CBD market."

Mr. Wang continued, "The addition of these major distributors and buying groups in the highly regulated pharmacy segment allows Ananda Health to distribute products via the traditional, highly efficient wholesale model. This wholesale model is the industry standard for nearly all products sold in pharmacies."

US Industry Commentary – Increasing clarity and confidence for major distributors and buying groups

On 25 November 2019, the US Food and Drug Administration ('FDA') published a consumer update and announced that it had issued warning letters to 15 companies (Ecofibre is not one of the 15) for illegally selling products containing cannabidiol (CBD) in ways that violated the Federal Food, Drug and Cosmetic Act.

Ecofibre continues to strongly support the FDA's focus on our market and believes in the medium to long term the market will benefit from considered regulation in this new and forming industry.

The clarity that CBD is not going to be classified as a food in the near future is an important statement for the industry as it reinforces the message that a measured approach will be taken and patient safety is non-negotiable.

Mr Wang commented, "Our customers and business partners understand that the FDA's announcement did not change hemp-derived full spectrum extract regulation in the United States. Hemp-derived extract has been federally legal under the 2014 & 2018 Farm Bills since Ananda Health started in 2016."

"Major distributors who decide to participate in this industry understand the need to work with manufacturers who have the highest level of quality assurance, full control of their supply chain and are 100% compliant with the 2018 Farm Bill without exception."

"The FDA is taking a strong position against illegal marketing while it waits for more data on the benefits and risks of CBD. Non-compliant CBD businesses will continue to come under pressure from both regulators and customers."

Ananda Health distribution starts its maturation towards traditional, highly efficient model

Ananda Health's distribution model is maturing as federal and state regulation becomes more defined and major distributors select partners to enter the hemp-derived CBD market.

Since making the decision to service the independent pharmacy market in early 2017, Ananda Health's primary distribution model has been direct to pharmacy, with some distributor support. This was due to the fact that traditional wholesale distributors and buying groups waited for sales history / customer demand in this new product segment and more importantly for clarity on the legal status of hemp-derived CBD as it pertains to their businesses.



Increasing clarity around the distribution of federally legal hemp-derived CBD has allowed Ecofibre to begin shifting to the well-established wholesaler-to-pharmacy-distribution model. Over the last quarter, Ananda Health has started to supply several large distributors and buying groups to acquire new pharmacies and service existing customers.

The maturation to a distributor-led model will:

- increase Ananda Health's addressable market by making it easier for pharmacies to integrate with existing supply chains
- make it easier and more efficient for Ecofibre to service smaller customers

As a result of this shift Ecofibre also notes that:

- a lag between sales and receipts from customers was experienced in the December 2019 quarter. The Company expects this to normalise over the following quarters in line with growth. Ecofibre's half year results will show an increase in receivables as the proportion of upfront payments made by direct customers reduces.
- we will no longer be able to accurately report the exact number of independent pharmacies supplied by Ananda Health as this information is not provided by wholesale distributors.
- Ecofibre will pay distributor fees in line with standard industry terms. The Company has planned for this transition and continues to improve its production costs to maintain historical gross margins.

H1 FY20 profit guidance re-affirmed

Ecofibre re-affirms guidance that H1 FY20 net profit after tax will exceed the FY19 full year result of \$6.0m (which included a net \$1.4m tax credit). The Company continues to focus on quality business and strategically manages its costs to deliver profitable growth.

Appendix 4C Cash Flow Discussion

As at 31 December 2019 the Company's cash position was \$23.2m (unaudited).

- Cashflows from **operating** activities totaled \$0.6m, including:
 - Receipts from customers of \$11.2m, lower than the prior quarter (Q1 FY20: \$13.6m) due to a higher balance of receivables as a result of the increased use of distributors; and
 - Cash operating costs of \$10.6m (Q1 FY20: \$9.7m) included payment of \$1.2m income tax in the US and a \$1.2m cash reserve transferred to a new credit card provider for Ananda Health.



- Cashflows from **investing** activities (\$2.2m) primarily related to construction of Ecofibre's new US Headquarters, which will enable Hemp Black production capabilities and growth in Ananda Health.

Investment expenditure will increase over the next three quarters as final construction payments are made, new product format capacity added for Ananda Health, and set-up completed for Hemp Black. Ecofibre will fund these investments through existing cash resources and operating cashflow.

The aggressive 10-month program of work is on schedule and the Grand Opening will be in late April 2020. The Company plans to have the new Hemp Black processing capability commissioned and operational by the end of June 2020.



Georgetown, KY. January 2020



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About Ecofibre

Ecofibre is a provider of hemp products in the United States and Australia.

In the United States, the Company produces nutraceutical products for human and pet consumption, as well as topical creams and salves. See www.anandahemp.com and www.anandaprofessional.com.

In Australia, the Company produces 100% Australian grown and processed hemp food products including protein powders, de-hulled hemp seed and hemp oil. See www.anandafood.com.

The Company is also developing innovative hemp-based products in textiles and composite materials in partnership with Thomas Jefferson University (TJU) in the United States. See www.hempblack.com.

The Company owns or controls key parts of the value chain in each business, from breeding, growing and production to sales and marketing. Our value proposition to customers is built on strong brands and quality products.

Authorisation

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



Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Ecofibre Limited

ABN

27 140 245 263

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	11,233	24,820
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(3,378)	(7,942)
<i>Grower payments, Ananda Health</i>	(498)	(2,037)
<i>Grower payments, Ananda Food</i>	(397)	(1,087)
<i>Production costs</i>	(2,483)	(4,818)
(c) advertising and marketing	(527)	(1,358)
(d) leased assets	(68)	(130)
(e) staff costs	(2,994)	(5,656)
(f) administration and corporate costs	(1,326)	(2,750)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	88	142
1.5 Interest and other costs of finance paid	(24)	(121)
1.6 Income taxes paid	(1,228)	(1,234)
1.7 Government grants and tax incentives	-	12
1.8 Other (credit card reserve)	(1,168)	(1,168)
1.9 Net cash from / (used in) operating activities	608	4,615

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(2,251)	(7,014)
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property – TJU patents	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	81
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) 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)	20	26
2.6 Net cash from / (used in) investing activities	(2,231)	(6,907)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (payment for principal portion of lease liabilities)	(139)	(275)
3.10 Net cash from / (used in) financing activities	(139)	(275)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	25,095	25,740
4.2	Net cash from / (used in) operating activities (item 1.9 above)	608	4,615
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,231)	(6,907)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(139)	(275)
4.5	Effect of movement in exchange rates on cash held	(149)	11
4.6	Cash and cash equivalents at end of quarter	23,184	23,184

5. Reconciliation of cash and cash equivalents		Current quarter \$A'000	Previous quarter \$A'000
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts			
5.1	Bank balances	5,356	2,552
5.2	Call deposits	2,916	3,490
5.3	Bank overdrafts	-	-
5.4	Other	14,912	19,053
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	23,184	25,095

6. Payments to directors of the entity and their associates		Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	119
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Directors' salaries and fees, excludes GST where applicable.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

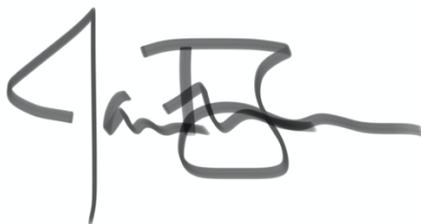
8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	100
9.2 Product manufacturing and operating costs	3,189
<i>Grower payments, Ananda Health</i>	498
<i>Grower payments, Ananda Food</i>	8
<i>Production costs</i>	2,683
9.3 Advertising and marketing	712
9.4 Leased assets (operating and financing)	205
9.5 Staff costs	3,094
9.6 Administration and corporate costs	1,568
9.7 Other (income taxes)	2,600
Capital Expenditure - mainly new US headquarters	8,200
9.8 Total estimated cash outflows	19,668

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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.



Sign here:
 CFO/ Company Secretary

Date: 16 January 2020

Print name: Jonathan Brown

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.