

Q2 FY24 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C CASHFLOW STATEMENT

Nutritional Growth Solutions Limited (ASX: **NGS**) ("**NGS**" or "**the Company**"), a health, nutrition, and wellness company headquartered in the United States, is pleased to provide the Company's Quarterly Activities Report and Appendix 4C Cashflow Statement for the period ended 30 June 2024 ("**Q2 FY24**" or the "**Quarter**," or "**reporting period**").

HIGHLIGHTS

- Q2 FY24 Revenue increased 17.4% to \$648k USD (\$982k AUD) compared to the prior quarter.
- NGS was accepted for ranging of Healthy Heights® products on Target.com in the United States.
- Completed \$2m AUD capital raising with support from strategic and supportive sophisticated investors, which was approved by shareholders at the AGM with funds received in July 2024.
- In July, subsequent to the reporting period, NGS entered into an exclusive Intellectual Property Licence Agreement to produce and distribute The Healthy Chef® products in North America.
- Incremental revenue from Healthy Chef® product sales is expected to exceed \$1.5m USD (\$2.3m AUD) in the first year of trading and significantly improve the blended group gross margin.

1H FY24 PERFORMANCE CONSTRAINED BY SUPPLY CHAIN DISRUPTION AND UNDERCAPITALISATION

1H FY24 Revenue of \$1.2m USD (\$1.8m AUD) was constrained by supply chain disruption and limited working capital, resulting in ~30% of sales orders being unfulfilled and revenue declining 23.2% compared to the prior corresponding period. The key contributing factors are outlined below.

A) Sunflower Shortage and New Supply Chain Enhancements

Issue faced:

Sunflower lecithin is a key ingredient in Healthy Heights® products. In the past decade, 45-55% of the world's sunflower oil was exported from Ukraine and 15-25% was exported from Russia. Regional conflict caused major disruption in the sunflower global supply chain and led to the Company's best selling products being out-of-stock for extended periods throughout 1H FY24.

Management action and resolution:

Management responded by establishing new direct procurement agreements with key ingredient suppliers. Furthermore, bulk purchase commitments resulted in a better price and reduction in the Cost of Good (COG).

Go-forward position in 2H FY24 and beyond:

Finished goods inventory cover has now stabilised with 100% of orders being fulfilled in July. Increased working capital will allow for extended weeks of inventory coverage to mitigate any potential future disruptions.

B) Brand and Marketing Activity

Issue faced:

The stock shortage heavily impacted Amazon subscriptions, which were cancelled due to policy failure in meeting inventory fulfillment benchmarks.

In addition, to preserve cash, management was required to scale back on on Direct-To-Consumer (D2C) Paid Performance and Amazon advertising in 1H FY24, which directly impacted eCommerce sales growth and reduced new customer acquisition rates.

Management action and resolution:

Despite the out-of-stock issues, Walmart's 1H FY24 sales velocity continued to perform strongly, resulting in the renewed ranging of Healthy Heights® and Kidz Protein® in the Infant and Toddler feeding 2024/25 planogram.

Management also targeted channel activities and dynamic branded content. This resulted in high engagement, repeat purchase from existing consumers, and improvement in the following key brand health metrics in Q2 FY24:

- Average Order Value (excl. Amazon): \$51 USD
- Annual Repurchase Rate: 30%
- Lifetime Value since 1st purchase: \$90 USD
- Website User Visits/Sessions: 305,000, up 30% QoQ
- Returning Customer Rate (excl. Amazon): 43%

Go-forward position in 2H FY24 and beyond:

With out-of-stock issues resolved, and management now armed with capital to invest in brand and marketing activities, the Company expects to return to growth of the above key metrics across all existing channels (D2C, Amazon, other eCommerce, Walmart).

CASH BALANCE AND CAPITAL RESET

NGS held \$128k USD (\$194k AUD) in cash reserves as at 30 June 2024. During the quarter, the Company successfully implemented a capital raising that was strongly supported by Australian sophisticated and professional investors, securing \$2.0 million AUD. The Company did not receive these funds in full until July, post reporting period, following shareholder approval at the AGM.

Now that the Company is recapitalised with support from strategic and supportive shareholders, it is well positioned to accelerate channel distribution in the United States, expand the brand portfolio, and scale operations to drive efficiencies.

ENHANCING COST EFFICIENCIES TO ACCELERATE THE PATH TO POSITIVE CASHFLOW

Although revenues were constrained in 1H 2024 with limited working capital, relative profitability has increased following significant reduction in operating expenses.

Operating and cash outflow for the quarter was \$867k USD (\$1.3m AUD), culminating in a total of \$1.7m USD (\$2.6m AUD) for the first half (1H FY24). This represents a decrease of \$1m AUD or 28% in operating expenses compared to the second half of the previous fiscal year (2H FY23), where outgoings were \$2.4m USD (\$3.6m AUD).

Management continues to demonstrate efficient cost management and lean operations, with the average monthly cash burn reduced to \$83k USD (\$126k AUD) in 1H FY24, down from \$198k USD (\$300k AUD) in FY23. The focus is now on scaling operations and enhancing revenue generation to introduce efficiencies that will improve margins and profitability.

2H FY24 GROWTH ENGINES AND OPERATIONAL PRIORITIES

The Company has set certain operational priorities in 2H FY24 to return the business to profitable growth with a significant degree of discipline. These key focus areas include:

A) Healthy Heights® to increase U.S. Retail Footprint

Target.com

Pleasingly, during the quarter, NGS was approved to list Healthy Heights® products on Target.com via the invitation-only Target Marketplace. Target Corporation (NYSE: TGT) is USA's 7th largest retailer with 1,950 physical stores, with Target.com online sales accounting for c. 20% of Target's total sales. The products will be available nationally for consumer purchase from August 2024.

Walmart

Due to the continued strong sales velocity in Walmart during 1H FY24, the Company has successfully renewed ranging of Kidz Protein® in the 2024/25 planogram. The products are currently available across 400 Walmart stores. As of the end of July, Walmart's exclusivity on Happy Tummies® dietary supplements has ended, and NGS is now free to approach other retailers and begin expansion discussions.

CVS

The Company has been in discussion with CVS for some time. Following allocation of a 'Vendor Number,' the Company is continuing to work with CVS in finalising the ranging of its products in CVS stores.

Other Physical Stores

In addition to Walmart and CVS, the Company is due to participate in two major trade events during Q3 FY24 and expect to identify additional physical retail chain stores that will drive profitable growth for its core brands.

B) Renewed Marketing Investment

Following the capital raise, the Company is now in a position to renew its marketing investment, particularly in D2C and Amazon Channels. Historically, the Company has reached a peak monthly sales volume of approx. \$73k USD (\$111k AUD) for D2C and \$209k USD (\$317k AUD) for Amazon in Q1 2023. With appropriate and targeted investment, the Company is confident it will be able to equal or surpass this peak sales volume during 2H FY24.

Based on returning to the historical peak, the Company would have a baseline of c. \$280k USD (\$424k AUD) per month in sales to build from.

C) Gross Margin Improvements

Group gross margin is expected to improve from 32% to 36% during 2H FY24. These margin improvements will be driven by raw material cost savings, modifications in product formats, and premium pricing strategy during Q4 FY24.

During FY25, the Company expects its existing core products to return to margins of 40% or better. Together with The Healthy Chef® product sales that derive gross margins of over 55%, the Company is expecting material improvements in its blended group gross margin on a go-forward basis.

HOUSE OF BRANDS GROWTH STRATEGY: THE HEALTHY CHEF®

The exclusive IP Licence will enable the Company to maximise its USA infrastructure and significantly fast-track the path to positive cashflow and profitability with increased scale. The Healthy Chef® provides a cornerstone comprehensive branded business that is:

- Highly complementary to the existing NGS business and Healthy Heights® brand portfolio.
- Synergistic opportunities to scale with operational cost optimisation.
- Increased quality revenue expected to be above \$1.5m USD (\$2.3m AUD) in the first year of trading, equivalent to c. 45% of group revenue in FY23.
- High margin and profit accretive.
- Combined online and offline distribution network in the USA with cross-selling opportunities.
- Capable of seamless transition and integration with current USA operational model.
- No significant additional corporate costs to grow the business at scale.

The Company expects first revenue from the The Healthy Chef® range of products to be realised during the course of FY24.

Stephen Turner, CEO and Managing Director, commented: "We have had a challenging start to FY24, where the business was restrained by supply chain and capital. However, these issues have enabled us to identify new ways in making the operations leaner, reducing our costs, as well as reflecting on key strengths of the business, which include our USA infrastructure and expertise.

“Following the capital raising from strategic and supportive investors who can see the business opportunity in the United State and its growth potential. I am particularly buoyed by the possibilities over the next six months and beyond, as we return to focusing on growing the business and brand portfolio, as we move towards profitability,” Mr. Turner said.

ASX Additional Information

In accordance with Listing Rule 4.7C.1, and as outlined in the Appendix 4C, the Company advises it spent \$230k USD (\$348k AUD) on product manufacturing and operating costs, \$75k USD (\$114k AUD) on administration and corporate costs, \$243k USD (\$368k AUD) on staff costs, and \$296k USD (\$448k AUD) on advertising and marketing.

This announcement has been authorised for release by the Board.

For further information, please contact:

Stephen Turner

Managing Director and CEO

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About Nutritional Growth Solutions

Nutritional Growth Solutions is a U.S.-based health, nutrition, and wellness company. NGS develops, produces and sells clinically tested nutritional supplement formula for children following 20 years of medical research into pediatric nutrition. The nutritional supplements market has experienced tremendous growth in recent years, but most attention has been focused on adult users and children under three years of age. The three to twelve-year-old consumers represent a larger market opportunity and NGS is highly differentiated from its competitors with clinically tested products and an expanding product portfolio to capture this market opportunity.

<https://healthyheights.com> | <https://ngsolutions.co>

About The Healthy Chef®

The Healthy Chef® is a premium producer of wellness and health products under the Healthy Chef® brand, inspiring women to incorporate healthy eating into their everyday lives. The Healthy Chef® diverse offering creates seamless omnichannel brand touchpoints to connect with women on their personalised health and wellness journey, including:

1. **Nutritional Products** – 28 products based on protein, collagen, probiotics, and supplements for weight loss, gut health, stress, sleep, immunity, and menopause.
2. **App** – subscription based meal planning App with >1,000 interactive healthy recipes.
3. **Cookbook series** – 7 cookbooks involving hundreds of hours of creativity in the kitchen.

<https://thehealthychef.com>

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Nutritional Growth Solutions Ltd.

ABN

642 861 774

Quarter ended (“current quarter”)

On 30/06/2024

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	648	1,200
1.2 Payments for		
(a) research and development	(23)	(43)
(b) product manufacturing and operating costs	(230)	(473)
(c) advertising and marketing	(296)	(447)
(d) leased assets	-	-
(e) staff costs	(243)	(498)
(f) administration and corporate costs	(75)	(236)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(219)	(497)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	313	576
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(39)	(130)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	6
3.10	Net cash from / (used in) financing activities	274	452

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	73	172
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(219)	(497)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	274	452
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	128	128

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	128	72
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)	128	72

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

7.	Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
	<i>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.</i>		
7.1	Loan facilities	210	210
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	210	210
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.		
	<p>In January 2023, two loans were received: A US\$ 200K loan from Amazon Lending for 12 months. Annual interest rate 9.49%. first 3-month interest only and then 9 equal monthly payments (Principal and Interest). The loan repayments are offset from the company's monthly sales deposits.</p> <p>A US\$ 86K loan from Shopify Capital for 10 months. Estimated costs as a yearly rate 15%. Repayments - a 0.17% of the daily sales amount of the Company is remitted to Shopify Capital until Shopify Capital has received the full agreed amount of US\$97K. In September 27, a loan of \$190K was received from Amazon and in September 29 a loan of \$84K was received from Shopify.</p>		

8.	Estimated cash available for future operating activities	\$US'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(219)
8.2	Cash and cash equivalents at quarter end (item 4.6)	128
8.3	Unused finance facilities available at quarter end (item 7.5)	
8.4	Total available funding (item 8.2 + item 8.3)	72
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	.32
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	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?	
	Yes, the Company expects to have the current level of net operating cash flows.	
8.6.2	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?	
	Yes, the Company has successfully raised funds of \$2 million AUD in July 2024.	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes, revenues generated from sales, growth on current activities and our ability to access capital from investors.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 31 July, 2024

Authorised by: Board of Directors
(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.