



ASX Announcement 17 December 2019

Market Update

Elixinol Global Limited (Elixinol or the Company) (ASX:EXL; OTCQX:ELLXF) today provides a market update following a review of operations since the commencement of Stratos Karousos as Group Chief Executive Officer (Group CEO) in July 2019. Commenting on his first few months as Group CEO, Stratos Karousos noted: “We are taking a very diligent approach to ensure the business is well positioned to take advantage of the growth potential in the US and Europe & UK CBD markets.”

Key Highlights

- Simplifying the business model to focus on the hemp derived CBD market
- Reviewing strategic options for Hemp Foods Australia and Nunyara
- Total refresh of the brand and product at the consumer level more in line with a CPG focus
- Investing in infrastructure to drive operating efficiencies and margin improvement
- Hired key people across all of our sales, marketing, and operations functions
- Focusing on channel penetration, cost control and margin improvement
- Reducing cash burn with cash on hand as at 30 November 2019 of \$27.4m

Refined Strategic Focus

Elixinol remains very positive on the market opportunity for hemp derived CBD and its ability to leverage its strong reputation for high quality hemp derived CBD products. Elixinol is ideally positioned in the US and Europe & UK markets given its recent investment in people, infrastructure and production capacity.

Despite a prolonged uncertain regulatory environment, Elixinol has refined its strategy to ensure it delivers both short and long term success. Elixinol’s strategic focus is now predicated on the following key pillars to support revenue growth and margin improvement:

- Simplifying its business model to focus on hemp derived CBD products
- Building Elixinol into a dynamic CPG group as a trusted global brand
- Maintaining current high quality supply partners particularly in the organic space
- Leveraging its investment in production capacity and strategic partnerships
- Tightening cost control and capital management
- Diligently investing capital to appropriately position itself for future growth.

Simplified Business Model

The Company currently operates three distinct business units, Elixinol CBD, Hemp Foods Australia and Nunyara. Considering the significant opportunity presented globally in the hemp derived CBD market, the Company has decided to focus its resources on the Elixinol CBD business unit moving forward. The Board is currently reviewing potential strategic options for Hemp Foods Australia and Nunyara with a view to optimising shareholder value (including the potential divestment of these businesses).



Brand and Product Refresh

Whilst Elixinol continues to be a leading brand in hemp derived CBD products, Elixinol recognises the requirement to continually assess its consumer proposition and branding in an extremely dynamic and developing market.

Accordingly, Elixinol has completed a total brand and product refresh which will be released to the market in the back half of Q1 2020. This refresh is driven by the ongoing changes in the hemp derived CBD market as the market becomes more consumer focused. The brand and product refresh has been centered on the following core pillars:

- Dynamic consumer driven offering
- Truly global
- Industry leading science and innovation
- Heritage in hemp.

As part of the refresh, Elixinol has also undertaken a rationalisation program to reduce the number of Stock Keeping Units (SKUs) to be more consumer and retail partner focused. Previously, Elixinol's go to market strategy has been too broad and confusing to the consumer. Elixinol's brand and product refresh is more targeted at the key consumer areas of the retail industry.

Moving forward, Elixinol will apply a data driven approach to its sales and marketing efforts with a rationalised range of core products including tinctures, capsules, powders and topicals. Driven by consumer feedback, Elixinol also plans to roll out new innovative products throughout 2020.

Investment in Operations and e-Commerce

Elixinol has continued to invest in its operational processes and systems throughout 2019 to achieve an improved level of operating efficiency.

The majority of this work has been completed in 2019 and there are further improvements targeted for 2020 and beyond. Some of these key developments in 2019 included:

- Implementing new ERP systems which enabled Elixinol to capture more accurate data in relation to sourcing, manufacturing and distribution
- Developing a new e-commerce platform to become a leading player in this segment of the industry. This work will also allow the Company to leverage a data driven approach to sales and marketing by utilising its newly implemented ERP systems.

During 2019, Elixinol also invested \$5.4m to upgrade and increase capacity in its production facility in the US, which more than doubled its capacity. The facility is expected to provide significant cost efficiencies leading to improved product margins and accelerated operating leverage.

Elixinol utilises a mix of cultivating its own raw materials and sourcing externally grown products. All raw materials used in Elixinol products have been cultivated using organic methods, including securing long term certified organic produce from experienced growers.



Elixinol is fully compliant with the 2018 United States Farm Bill, does not make therapeutic claims on any of its products and does not add CBD to food. Elixinol also welcomes the US Food and Drug Administration's focus on the hemp derived CBD market which will benefit from considered regulation in this new and forming industry.

In anticipation of an expected increase in consumer demand for hemp derived CBD products, Elixinol increased its inventories throughout the year and strategically placed deposits on raw material supply contracts. Once extracted and stored as bulk oil, the shelf life of inventories is approximately 3-4 years, enabling Elixinol to stockpile for anticipated future growth.

Globally, the Company is focused on expanding distribution of Elixinol branded and co-branded hemp derived CBD products through reputable distributors as key markets open.

Established Leadership Team

As announced on 23 July 2019, the Board made changes to the Company's leadership team to ensure the right global and regional leadership structures are in place to focus on operational strategy and execution. The established leadership team is supported by key hires across sales, marketing, operations and compliance.

Cost Control and Capital Management

The Company has prioritised areas that it can control which includes tight cost control and prudent capital management. Accordingly, the Company expects to report cash outflows for the December quarter lower than was estimated in its most recent Appendix 4C filed with the ASX on 29 October 2019. As at 30 November 2019, the Company held cash on hand of \$27.4m.

With a continued focus on cost control and the execution of various working capital reduction initiatives, the future quarterly cash burn rate is planned to be lower than historical run rates. Additionally, the Company's operating budget, which is not predicated upon regulatory development in the US and Europe & UK, provides a pathway towards positive cashflow and increased gross margins.

Group CEO, Stratos Karousos said: "Elixinol's focus on return on investment enables the Company to leverage the significant capital that has been deployed in operations, e-commerce, raw materials and key people. Elixinol's refined strategy on hemp derived CBD in the US and Europe & UK ensures the Company is well positioned, despite prolonged regulatory developments, with a pathway to positive cashflows and will be able to capitalise on the expected global growth in the hemp derived CBD market in 2020 and beyond. We will continue to build on the initiatives that are underway to deliver value to all shareholders."

This document was authorised to be given to the ASX by the Board of the Company.

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About the re-set of Elixinol Global

Elixinol Global Limited (ASX:EXL; OTCQX:ELLXF) is a global leader in the hemp derived CBD industry, innovating, manufacturing and selling hemp derived CBD products. The Company's simplified business model is focusing on:

- In the Americas, innovating, manufacturing and selling Elixinol branded hemp derived CBD products based in Colorado, USA
- In Europe & UK, educating and selling Elixinol branded and co-branded hemp derived CBD products based in Amsterdam, Netherlands
- In Australia, providing stronger unified planning and support across the group to enable the various regional offices to focus on operational strategy and execution through its Global Executive Office based in Sydney, Australia
- Globally, expanding distribution of Elixinol branded hemp derived CBD products through reputable distributors as key markets open.

See more at www.elixinolglobal.com