



ASX:EXL | OCTQB:ELLXF

# Proposed acquisition of CannaCare Health to create a leading Pan-European CBD business

15 March 2021



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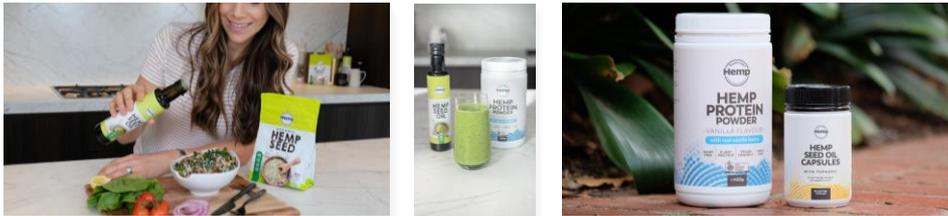
## Elixinol CBD



## elixinolSkin CBD



## Hemp Foods Australia



## Our Vision

Building a global, hemp derived, health and wellness consumer products business.

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## Our Mission

Making a positive contribution to people's health, wellness and the planet through the power of hemp products.

# Transaction summary

*Elixinol plans to acquire leading German-based CBD business, CannaCare, to accelerate its vision of becoming a global, hemp-derived health and wellness consumer products business.*

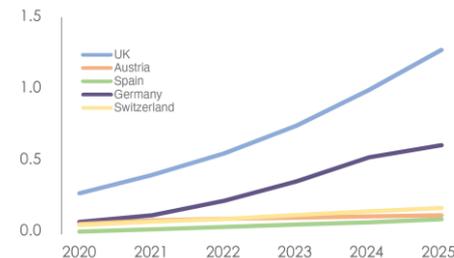
<p><b>Overview of CannaCare</b></p>	<ul style="list-style-type: none"> <li>• CannaCare's CANOBO brand is the leading company for premium CBD products in Germany's retail market (drugstores<sup>1</sup>, pharmacies) with over 4,500 distribution points selling a range CBD oils, sprays and cosmetics</li> <li>• Break-even business with a strong growth trajectory</li> <li>• FY2020 revenue of €2.6m at break-even EBITDA (unaudited)</li> <li>• 1<sup>st</sup> CBD brand to invest in extensive broad reach media and TV commercials</li> <li>• Operating a capital light outsourced supply chain model similar to Elixinol UK</li> <li>• Existing management team to remain in place. Major shareholder, Frank Otto, will join Elixinol's Board, bringing significant experience in the German and European markets</li> </ul>
<p><b>Purchase Consideration</b></p>	<ul style="list-style-type: none"> <li>• Up-front purchase price of €9m, comprising: –€3m cash; and –€6m of Elixinol scrip</li> <li>• Up-front consideration implies 3.5x EV/revenue (LTM 31 December 2020) and 2.2x EV/revenue (based on annualised run-rate Q4 FY2020 revenue)</li> <li>• Performance-based earn-out of up to €15.0m in Elixinol scrip, subject to achieving certain earn-out milestones</li> </ul>
<p><b>Earn-out Mechanism</b></p>	<ul style="list-style-type: none"> <li>• Maximum earn-out payable is €15.0m and CannaCare must achieve revenue during FY2021 of at least €6.5m for any earn-out to be payable (subject to a minimum EBITDA margin hurdle of 20%)</li> <li>• Adjustment mechanism in place where FY2021 revenue achieved is greater than €6.5m but below minimum EBITDA threshold</li> <li>• Earn-out to be paid in Elixinol scrip on or around 31 March 2022</li> </ul>
<p><b>Expected Financial Impact</b></p>	<ul style="list-style-type: none"> <li>• CannaCare delivered €2.6m of revenue in FY2020 with breakeven EBITDA and is expecting significant growth in FY2021</li> <li>• At minimum threshold of €6.5m for an earn-out to be paid, CannaCare revenue would constitute +66% revenue growth on Elixinol Global's FY2020 audited revenue</li> <li>• Acquisition expected to fast-track revenue growth and accelerate pathway to group profitability</li> <li>• Substantial long-term synergy potential</li> </ul>

# German CBD market is highly attractive<sup>1</sup>

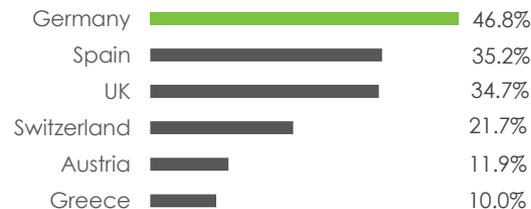
*CannaCare presents an opportunity to take a significant share of Europe's fastest growing CBD market.*

- #1 Positive regulatory developments as the European Court of Justice ruled CBD is not a narcotic and CBD products should enjoy free movement within and across Europe. Novel Foods Application to be re-instated.
- #2 2nd largest and fastest growing CBD market in Europe. Estimated retail value in 2020 of US\$90m, expected to grow to US\$617m by 2025 (CAGR 47%)
- #3 Total addressable market (excludes Vapes) in 2020 of US\$53m growing to US\$477m in 2025 (CAGR 55%)
- #4 Key channels include online, pharmacies, drugstores, organic grocery and specialty CBD retail account for 80-90% of distribution
- #5 Market highly fragmented with no brand having more than single digit market share
- #6 Good access point to markets in Austria and Switzerland (Europe's No.3 and No. 4 markets) that together provides total market of US\$147m in 2020 growing to US\$322m by 2025 (CAGR 17%)

European CBD Markets Size (US\$m)<sup>1</sup>



European CBD Markets 2020-2025 CAGR<sup>1</sup>



# CannaCare overview

*CannaCare presents an opportunity to take a significant share of Europe's fastest growing CBD market.*

- Established 2018, based in Hamburg
- Extensive product range with 20 SKUs mainly consisting of oil, sprays and cosmetics marketed under CANOBO brand
- CANOBO #1 brand in German bricks and mortar retail with over 4,500 distribution points and an estimated market share of 42%<sup>1</sup> in the drugstore channel
- CANOBO first brand investing in broad reach media with several TV ads driving national consumer appeal
- Capital light model with outsourced supply chain
- Investment in new organic product certification
- Strict quality controls and independent testing regime



# CannaCare distribution and routes-to-market

*CannaCare enjoys a dominant position in traditional retail with particularly strong penetration in the drugstore channel (~42% market share<sup>1</sup>) and pharmacies.*

## Pharmacy/Drugstores



**ROSSMANN**  
Mein Drogeriemarkt

Leading drugstore chain – 2,200 POS



Drugstores – 680 POS



Drugstores – 180 POS



1,500 Pharmacy distribution

## E-Commerce



Major online retailer & publisher



Premium online cosmetics retailer



Premium online cosmetics retailer

## Home Shopping



Leading European omnichannel retailer reaching ~45m German, Austrian and Swiss households

## Supermarket



Leading German supermarket with over 50 stores

## Online

Platform transitioning from Shopify to Magento in Q1 2021 to support growth and scalability

# Key people

**FRANK OTTO**

*Strategy Partner & Shareholder*

Serial founder in the media industry

Founder and investor of many successful corporations (e.g. VIVA Music-Television)

Will join the Board of Elixinol Global as Non-Executive Director

**OLIVER HAIST**

*Managing Director*

L'Oréal – Group Key Account Manager FMCG

Philips – International Head of Sales FMCG

Leifheit – Export Director

Estée Lauder – Head of Sales and Marketing Germany



# Synergies and growth outlook

*An acquisition of CannaCare will deliver Elixinol immediate material scale in Germany, while creating significant long-term value through a high growth market trend, identified cost synergies and potential cross-selling opportunities.*

## Synergy Potential

- ✓ Procurement savings by leveraging buying power of combined group
- ✓ Integration of supply chains leading to cost-out and enhanced efficiencies
- ✓ Leaner combined management and organizational structure
- ✓ Dual brand offering provides differentiation while capturing bigger share
- ✓ Access to fast growing adjacent German speaking markets
- ✓ Cross-selling mutually exclusive and differentiated product portfolio

## Growth Drivers

- #1 Improved regulatory environment legitimising CBD as food product and driving wider distribution and consumer adoption.
- #2 German market growing to US\$617m by 2025 (CAGR 47%)<sup>2</sup>
- #3 New cosmetics range with large scale distribution expected
- #4 ATL & BTL media investment driving consumer awareness and demand
- #5 New e-commerce platform and growing customer acquisition
- #6 New product launches and range extensions (eg. sleep, immune)

NEW



NEW



# Key terms and funding

*Earn-out structure de-risks the transaction and limits downside, while enhancing upside potential and incentive alignment.*

## Key terms

<b>Purchase Price</b>	<b>Upfront Consideration</b>	<ul style="list-style-type: none"> <li>• €9m total upfront consideration to acquire 100% of CannaCare, comprising:           <ul style="list-style-type: none"> <li>– €3m (A\$4.6m) fixed payment in cash payable at completion</li> <li>– €6m (A\$9.2m) fixed payment in Elixinol ordinary shares payable at completion               <ul style="list-style-type: none"> <li>– Elixinol scrip to be issued based on an agreed price of A\$0.2105 Elixinol share price, representing the 2 month VWAP as at 22 Feb 2021</li> <li>– Shares issued as art of this tranche will be subject to voluntary escrow from their date of issue until 31 March 2022</li> </ul> </li> </ul> </li> </ul>
	<b>Earn-out</b>	<ul style="list-style-type: none"> <li>• €15.0m maximum earn-out payable to CannaCare shareholders and will be paid in Elixinol ordinary shares at or around 31 March 2022, subject to one of the following targets being met:           <ul style="list-style-type: none"> <li>– Adjusted EBITDA of €2.58m is achieved; or</li> <li>– If Adjusted EBITDA margin is greater than 20% and revenue is €12.9m or higher</li> </ul> </li> <li>• To the extent CannaCare does not achieve an Adjusted EBITDA margin of 20%, however achieves an Adjusted EBITDA of greater than €1.3m in FY2021, part of the earn-out will become payable (subject to a further 50% discount)</li> <li>• Earn-out to be 100% funded by Elixinol shares:           <ul style="list-style-type: none"> <li>– Share price will be calculated based on 15 day VWAP immediately prior to 31 March 2022</li> <li>– Foreign exchange rate to be calculated based on RBA published prevailing AUD:EUR, immediately prior to conversion</li> </ul> </li> <li>• Elixinol shares relating to the Earn-out to be issued on or near 31 March 2022</li> </ul>
<b>Condition</b>		<ul style="list-style-type: none"> <li>• The transaction is subject to customary conditions, including but not limited to:           <ul style="list-style-type: none"> <li>– An independent expert opining that the transaction is in the best interests of Elixinol security holders</li> <li>– Elixinol shareholder approval</li> <li>– ASX in principle advice regarding the issue of Performance Securities</li> </ul> </li> </ul>

# Timetable

Event	Date
Despatch of Notice Of Meeting to shareholders (including Independent Expert's Report)	Thursday, 15 April 2021
Annual General Meeting	Monday, 17 May 2021
Targeted transaction completion	Monday, 5 July 2021
Issue of Upfront Consideration Shares	Monday, 5 July 2021
Issue of Earn-out Consideration Shares	Thursday, 31 March 2022
Upfront Consideration Shares released from voluntary escrow	Thursday, 31 March 2022

# Summary: accelerating the path to profitability

*The proposed CannaCare acquisition accelerates Elixinol's vision of becoming a global, hemp derived health and wellness consumer products business.*

- ✓ Fast market entry and delivers immediate, material scale in Europe's fastest growing CBD market (CAGR of ~47% over 2020-25)<sup>1</sup>
- ✓ Established CBD brand with leading position in Germany and #1 brand<sup>1</sup> in drug store channel, with over 4,500 distribution points
- ✓ Robust financial profile with high growth outlook and clear pathway to profitability
- ✓ Recent changes to regulatory framework driving positive momentum in European CBD market
- ✓ Lean and scalable capital-light business model currently primed to capitalise on regional tailwinds
- ✓ Creates a leading pan-European CBD business with global reach and diversification outside of US market
- ✓ Earn-out structure materially de-risks transaction and limits downside, while aligning interests with vendors to increase upside
- ✓ Highly capable management team bringing significant experience and regional expertise





Q&amp;A

# Appendix

The following sets out some key effects to the Company as a result of the Proposed Transaction proceeding:

**Scenario:**

Upfront - cash (€3m)

Upfront - scrip (€6m)

Earn-out - scrip (between €0m-€15m)

**Total Purchase Price (A\$'m)**

	Nil earn-out <sup>2</sup>	Max earn-out <sup>4</sup>
Upfront - cash (€3m)	4.6	4.6
Upfront - scrip (€6m)	9.2	9.2
Earn-out - scrip (between €0m-€15m)	-	<u>23.1</u>
<b>Total Purchase Price (A\$'m)</b>	<b>13.9</b>	<b>36.9</b>

**Scenario:**
**A\$'m**

Total Assets

Total Liabilities

Total Equity Interests

Total Securities on Issue (m)

Annual Revenue

Annual EBITDA

Before transaction	Increase/(decrease) due to transaction				
	Elixinol	Nil earn-out		Max earn-out	
		CannCare			
FY2020 <sup>1</sup>	FY2020 <sup>2</sup>	FY2021 <sup>3</sup>	FY2020 <sup>2</sup>	FY2021 <sup>4</sup>	
Total Assets	42.5	10.0	-	10.0	23.1
Total Liabilities	6.8	0.8	-	0.8	-
Total Equity Interests	35.7	9.2	-	9.2	23.1
Total Securities on Issue (m)	314.7	43.9	-	43.9	109.7
Annual Revenue	15.0	4.1	< 10.0	4.1	20.0
Annual EBITDA	(22.9)	-	< 2.0	-	4.0

<sup>1</sup> Elixinol Group financial statements for year ended 31 December 2020 (audited). Annual EBITDA excludes asset impairment expenses.

<sup>2</sup> CannaCare FY2020 are unaudited and are shown on a pro forma basis. Upfront consideration of €9m, with €6m to be paid in Elixinol shares (converted to AUD at 22 February 2020 EUR/AUD exchange rate of 1.5389). Shares are issued at Elixinol's 2 month VWAP prior to 22 February 2021 of A\$0.2105.

<sup>3</sup> CannaCare FY2021 nil earn-out scenario shown where FY2021 revenue is <€6.5m @ minimum 20% EBITDA and therefore no earn-out is payable (converted to AUD at 22 February 2020 EUR/AUD exchange rate of 1.5389).

<sup>4</sup> CannaCare FY2021 max earn-out scenario where FY2021 revenue is >€12.9m and minimum 20% EBITDA yielding a maximum potential earn-out of €15m payable as Elixinol shares which will be priced at 15 day VWAP prior to 31 March 2022 (for the purpose of this scenario, amounts shown assume an EUR/AUD exchange rate of 1.5389 and assumes 15 day VWAP prior to 31 March 2022 to be A\$0.2105).



## For more information

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