

30 August 2021

ASX Market Release

30 June 2021 Full Year Report and Appendix 4E

FY21 Summary

- **Execution of a reset strategy** to adapt to fast-changing market dynamics in the COVID-19 landscape, delivered growth for flagship Oli6[®] goat infant formula brand in key sales channels, including cross border e-commerce (CBEC) and Australian retail.
- **Strong cash position of \$14.5M** with no debt, reflects a disciplined approach to cash management, highlighting the resilience of Nuchev's capital-light business model and allowing the company to continue to invest in the high-growth goat milk-based infant formula and nutrition category.
- **Sustained momentum achieved in the Australian supermarket channel** driven by significantly increased distribution in Coles, covering 95% of all outlets across the country. The Oli6[®] brand was the only brand to drive growth in the goat infant formula category in Coles on a Moving Annual Total (MAT) basis¹.
- **Positive growth in CBEC channel accessing consumers in China**, demonstrating a shift in consumer buying to online platforms during COVID-19, with consumer offtake increasing and revenue growth of 13%² in that channel.
- **Net revenue of \$10.9M was down 39% and volume of 370 MT was down 35%** reflecting the ongoing significant impacts of the diminished Daigou and pharmacy export trade, partially offset by growth delivered in the CBEC and Australian retail channels.
- **Oli6[®] brand continued to deliver value growth across key sales platforms** through refreshed brand positioning leveraging enhanced nutrition credentials led by science. Unique product innovations, including the only goat infant formula to offer Human Milk Oligosaccharides (HMOs) and Star Nutrition were launched in the later part of the year in the CBEC channel in China, and are set to launch in Australia to support further growth in FY22.
- **Confidence remains in the global goat infant formula category** Global Goat Infant Formula market is forecast to grow at +10% CAGR³. In China, Goat Infant Formula is forecast to grow at +10%⁴, well ahead of the Total Infant Formula Market with growth forecast at +3%. Given Nuchev's expertise in goat milk-based nutrition and strong cash position, the company is well positioned to capitalise on this growth.
- **Market diversification underway**, with sales listing achieved in Vietnam, however further market expansion impacted by ongoing COVID lockdowns and travel restrictions.

¹ Unify Coles scan data to 29 June 2021

² Nuchev sales revenue FY21 versus FY20

³ 2020 – 2026 CAGR. Source: Euromonitor : 2020

⁴ 2020 – 2026 CAGR. Source: Euromonitor : 2020

Nuchev (ASX:NUC) today announced its financial results for the year ended 30 June 2021, demonstrating resilience and agility during a year marked by ongoing uncertainty and challenges presented by COVID-19.

Despite uncertainty in the external market environment, positive momentum was achieved across a number of priority sales channels including the CBEC channel into China and retail channels in Australia, with revenue growth⁵ in the CBEC channel of 13% and 63% in Coles.

	FY21	FY20	% change
Volume (MT)	370.2	568.1	(35%)
Revenue (\$M)	10.9	17.8	(39%)
ASP / MT (\$000) - core*	32.0	31.3	2%
Gross Margin % - core*	34%	35%	(1%)
EBITDA (\$M)	(11.3)	(9.6)	(18%)
Net Cash (\$M)	14.5	10.3	41%

* excludes raw materials sales

The company reported a decline in net revenue of 39% to \$10.9M and a decline in volume of 35% to 370MT, which largely reflected the industry-wide contraction of the Daigou trade due to international travel restrictions, along with related impacts to the pharmacy export trade. Prior to COVID-19 impacts, Daigou trade contributed ~50% of Nuchev revenue, however, growth in CBEC and grocery was not able to offset such a swift decline in Daigou trade.

The development and execution of a reset strategy provided the company with the agility to adapt to the evolving COVID-19 landscape, investing in those channels most popular with consumers and which present the strongest growth opportunities. This included the CBEC channel, where the goat infant formula category is growing at 10%⁶ and ahead of the cow infant formula category. It also included the Australian supermarket channel, where Oli6[®] was the only brand in the goat infant formula category to deliver growth in Coles in FY21, with retail volume and value growth of 13%⁷ largely driven by increased distribution from 266 to 765 stores, representing 95% of all outlets.

While impacts to the pharmacy channel in FY21 were significant due to the contracted Daigou trade and an imbalance of demand from COVID-19-related pantry stocking in H2 FY20, positive sales momentum was achieved in Q4 FY21, indicating a return to growth in this channel. Q4 FY21 revenue for the pharmacy channel was 23% higher than the average of the prior three quarters⁸.

Confidence remains in the high-growth goat infant formula and nutrition category as a premium sub-category of the infant formula sector.

Average Selling Price (ASP) over FY21 increased 2% from FY20 to FY21, excluding raw ingredients. Gross Margin excluding raw materials was 34%, representing a slight decline of 1% on FY20.

⁵ Nuchev sales revenue FY21 versus FY20

⁶ Daedal Research China Infant Formula Market April 2021

⁷ Unify Coles scan data to 29 June 2021

⁸ Nuchev sales revenue FY21 versus FY20

Cash Management / Financial Position

The company reported a net cash position of \$14.5M with no debt as at 30 June 2021, an increase of \$5.1M on FY20, and Capex as a percentage of revenue was 3%, reflecting a disciplined approach to capital management. In the first quarter of the year the company successfully completed a \$15.2M capital raise, strengthening Nuchev's cash position, with proceeds used to invest in key distribution channels, sales and marketing and as well as to fund capital working requirements.

Refreshed Oli6[®] brand strategy and investment to drive growth, with market diversification being explored

Oli6[®] brand equity continued to grow and become more premium during the year, supported by a refreshed brand strategy underpinned by consumer research, and elevating the brand's unique nutritional credentials, led by science. Investment in key promotional periods including Chinese New Year, Double 11 Singles Day and the 618 promotion saw the brand drive 13% and 34% value growth on online platforms TMall and JD platforms⁹. In Australia, Oli6[®] was the only brand to drive growth in Coles on a MAT basis¹⁰, and further validation of the brand strategy was evident in Oli6[®] earning the position of 'No.1 brand in the Toddler Drink category' on the consumer-voted *Product Review* website.

A key highlight in H2 FY21 was the introduction of a unique new product formulation for Oli6[®] – the only goat infant formula to include goat and human milk oligosaccharides for enhanced nutritional and digestive benefits. The new product formulation, which also included 'Star Nutrition' designed for children aged over five years being the only goat milk formula product with lactoferrin, was launched in the CBEC channel in April and is due to launch in Australia in Q1 FY22, with strong support from key trade partners.

During the year, the company transitioned to a new strategic partnership with Blue Ocean, representing an upgrade to distribution arrangements for key platforms in China. Nuchev has worked closely with Blue Ocean to actively manage customer inventory levels, and ensure inventory is balanced with customer pull-through, particularly prior to the introduction of the new production formulation. The company remains focused on achieving registration with the State Administration of Markets Regulation (SAMR) to sell Chinese specification Oli6[®] product in the offline environment in China, however acknowledge that timings remain uncertain, and registration is unlikely to be achieved via an Australian manufacturer.

Nuchev continues to pursue market diversification beyond Australia and China, with sales listing achieved in Vietnam and entry to other markets being explored. Market diversification, however, has been impeded by ongoing international travel restrictions, as well as Victoria state-wide lockdowns, impacting team travel.

⁹ Smart Path CBEC data to June 2021

¹⁰ Unify Coles scan data to 29 June 2021

Outlook

Nuchev expects growth will continue in the Australian retail and CBEC channels in FY22 as the company maintains its focus on maximising distribution in key channels, recruiting new users, price optimisation and Oli6[®] product innovation. While the Daigou trade remains challenged, it is still considered an important channel in its ability to service consumers in China. Nuchev has the capability to leverage this channel but acknowledges it will represent a significantly smaller proportion of revenue going forward.

Despite the challenges and uncertainty caused by the global pandemic, the company remains confident in the fast-growing goat milk-based infant formula and nutrition category. With a flexible business model and strong cash position, Nuchev is well placed to capture future growth opportunities in this category.

Commenting on the full year results, Nuchev Chief Executive Officer Ben Dingle said:

“In a year that presented once-in-a-generation challenges and rapidly evolving dynamics across the industry, the Nuchev team has remained steadfast in our focus and commitment to building the Oli6[®] brand and pursuing sensible growth in priority sales channels. Disciplined execution of our reset strategy is proving to be successful, as we focus on leveraging the unique nutrition credentials of Oli6[®]; led by science and trusted by Mums. I am particularly proud of the resilience, collaboration and care demonstrated by our team members, especially coping during extended lockdowns and ongoing restrictions on travel. While uncertainty remains in the external environment, as the world takes steps to recover from COVID-19 and national and international borders slowly open up, we head into FY22 with the expertise, the business model and the strategies in place to capitalise on opportunities in the exciting goat milk-based nutrition category for infants and other life stages.”

Ben Dingle

CEO and Executive Director

Nuchev Limited

Authorised by: The Board of Directors

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About Nuchev Limited

Nuchev is an Australian based, globally oriented food business with a dedicated focus on developing, marketing and selling a range of premium Australian made goat nutritional products. Nuchev's primary products include its Oli6[®] branded goat infant formula and nutritional range, which are sold across multiple sales channels in Australia, China and the Hong Kong Special Administrative Region. Oli6[®] products are formulated with the benefits of goat, supported by ongoing scientific research. Nuchev operates a capital-light business model, leveraging leading raw goat ingredient suppliers and Australian-based manufacturers in an established, secure and scalable supply chain to deliver high quality products under a premium, trusted brand.

Preliminary financial report for the year ended 30 June 2021 as required by ASX listing rule 4.3A

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons for the year ended 30 June 2020)

	30 June 2021 \$	30 June 2020 \$	Up/down	Percentage Change %
Revenue from ordinary activities	10,899,342	17,763,252	Down	39%
Profit (loss) from ordinary activities after tax attributable to members	(13,268,540)	(10,902,865)	Down	37%

	Amount per security	Amount per security
Current period:		
Final dividend for the year ended 30 June 2021	Not applicable	Not applicable
Interim dividend for the half year ended 31 December 2020	Not applicable	Not applicable
Previous period:		
Final dividend for the year ended 30 June 2020	Not applicable	Not applicable
Interim dividend for the half year ended 31 December 2019	Not applicable	Not applicable

The Company does not propose to pay a final dividend for the year ended 30 June 2021 (30 June 2020: No dividend declared).

No interim dividend was declared for the half year ended 31 December 2020 (31 December 2019: no interim dividend declared).

Record date	Not applicable
Dividend payment date	Not applicable

	30 June 2021 \$	30 June 2020 \$	Up/down	Percentage Change %
Net tangible assets per share (cents)	50 cents	52 cents	down	3%

Additional information supporting the Appendix 4E disclosure requirements can be found in the Annual Report which contains the Directors' Report and the 30 June 2021 Financial Statements and accompanying notes.

This report is based on the consolidated financial statements for the year ended 30 June 2021 which have been audited by EY.