



## **CLOVER CORPORATION LIMITED**

### **Chairman's Address 2012**

**The 2012 financial year has seen significant value added for Clover Corporation Limited ("Clover"), its staff, customers and shareholders.**

**Clover has reported a net profit after tax for the 12 months ended 31<sup>st</sup> July 2012 of \$4.4m. Based on this more than satisfactory performance in what has become a challenging global market and the future prospects of the company, your directors have declared and paid a fully franked dividend of 1.75 cents per share for the 2012 year. This represents an increase of 17% compared to the 1.5 cents per share fully franked dividend paid in 2011. The dividend was paid on the 22nd November 2012.**

**It should be noted that in 2012 we had twelve months of trading and a consistent year end of July 31<sup>st</sup>. You may remember that in 2011 we changed the year end date which resulted in thirteen months of trading in the financial period.**

**I am pleased to advise the sale of Future Foods Ingredients Pty Ltd (FFI) has been finalised. Costs of \$1.22m associated with the sale of FFI's assets were expensed in 2012. Normalising for the twelve months of trading in 2011 and excluding this one off cost in the 2012 result, underlying net profit after tax for the year was \$5.6m compared to \$4.0m, an increase of 40%.**

**NEXT GENERATION NUTRITION**

**Clover Corporation Limited** ABN 85 003 622 866



**Sales revenue for 2012 was \$38.4m, compared to \$35.6m reported in the previous year, an increase of 7.9%. Adjusting for the extra month of trading in 2011, sales increased by 20%. Consistent with what we have outlined to shareholders before, the company's strategy in our core business is to focus on growing markets and opportunities for value add applications.**

**Infant formula and children's food applications account for 97% of our sales revenue. We continue to focus our efforts on the Oceania and Asian markets (including China), where Clover has a significant presence. Direct sales were particularly strong in Oceania driven by infant formula and related manufacturers who were targeting the export of their products to Asia. Furthermore, sales from high value encapsulated powders grew strongly and now account for 97% of revenues.**

**We have also reached an exciting point in our growth where we can leverage our IP to develop and commercialise a new component of our strategy – medical and pharmaceutical applications starting with specific products to improve the health of preterm infants. Our Managing Director Dr Ian Brown, will take you through a more detailed discussion of this development in his presentation but I would like to say that having started this initiative in 2008 we are pleased to see the vision materialise into a significant, attractive and timely business opportunity.**

**As we have explained to shareholders at previous meetings, the company's sales revenue is closely aligned to new product releases and when our customers adopt those products in new formulations. A number of our key customers have been affected by the slowdown**



in Europe and the USA which has delayed, in some cases, the launch of new products which carry our ingredients. However the company's innovation program and customer evaluation of new products continues, creating a platform for future growth. The usual customer approval process for new products will take 2 to 4 years, The first revenue contribution from products currently under evaluation is expected in calendar year 2013 with a material contribution in FY2014. Clover's sales growth can stabilise during these periods before new sales are initiated. For example, we reported sales of \$35m in 2010, \$32m in 2011 and \$38m in 2012. Our underlying sales growth in 2012 was 20%. Sales for the first three months to 31<sup>st</sup> October 2012 are up 5.9% compared to the same period last year. We expect this sales growth to be maintained for the first 6 months to 31 January 2013.

2012 was a year of strong cash generation at Clover. The company generated \$7.7m from operating cash flow. Cash and cash equivalents having fallen in 2011 to \$7.4m were increased to \$9.7m in FY12. The company spent \$1.6m of capital expenditure upgrading the Altona manufacturing facility to meet regulatory requirements and improve efficiency.

The ongoing focus on cost reduction and productivity are important as we, and the major customers we supply, face competitive challenges putting pressure on sales and inventory levels. In addition, during the year the global market witnessed industry consolidation with DSM acquiring Martek and Ocean Nutrition and just recently BASF announced the takeover of Pronova. These are significant industry developments which will further intensify competition in the market.



**In conclusion, Clover's core business of delivering bioactive ingredients using proprietary encapsulation technology is in good shape. The outlook for 2013 is promising following the solid performance in 2012. We will continue to focus on growth markets and new value add applications in our core business as well as make further progress in our new medical and pharma related business.**

**Clover has a very professional and dedicated team led by Dr Brown. On behalf of the Board and shareholders I thank them for their substantial contribution. Dr Brown was recently elected as a Fellow of the Australian Academy of Technological Sciences and Engineering (ATSE), an independent body of 800 eminent Australian engineers and scientists driving technological solutions for a better Australia. In summary, I believe shareholders can be well pleased with the 2012 financial year. It is now my pleasure to hand over to our Managing Director Dr Ian Brown**



# Managing Director Report for AGM

## 30 November 2012

NEXT GENERATION NUTRITION

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# MANAGING FOR GROWTH

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- **Who is Clover**
- **What happened in the past year**
- **Clover's competitive position and challenges**
- **Clover's strategy**
  - Focus on the core business
  - Developments in medical foods
- **FY2013 – the year so far**

# STRATEGIC VISION



Clover Corporation seeks to:

- Identify, develop and commercialise speciality functional and nutritional ingredients in the growing “nutraceutical” & medical markets
- Develop and commercialise leading edge proprietary and patented delivery technologies including the utilisation of encapsulation
- Work with innovative and multinational industry partners to leverage core technical and manufacturing strengths to innovate and launch new products and expand in core markets
- While retaining a conservative financial base, deliver growth on earnings and dividends

# COMPANY DESCRIPTION



- **Focus on two business units:**
  - Clover Corporation focuses on innovation, obtaining the optimal return from proprietary technology and developing new business opportunities
  - Nu-Mega Ingredients (100% owned subsidiary) commercialises proprietary ingredient delivery and encapsulation technology in targeted value added markets
- **Work with customers to identify, design, develop, test & launch new products**
- **Generate sales directly and through specialist distribution partners**
- **Maintain strong links with technical & academic agencies including CSIRO**
- **Employ 39 staff, including 4 PhD's, with offices in Sydney, Melbourne, Brisbane and UK**

# KEY COMPANY DEVELOPMENTS



## Clover Corporation

- **1988** Private Co.
- **1999** – ASX listed
- JV with Heinz for tuna oil processing
- Research in encapsulation

## 2002-2007

- Clover Corp JV with Food Spectrum = Nu-Mega Ingredients
- Uses encapsulated tuna oil in foods & infant formula
- Focus on Asian and European markets
- **2004** – Clover Corp JV to form FFI for proprietary soy ingredients

## 2007-2012

- Nu-Mega Ingredients 100% subsidiary of Clover Corp.
- **2008** - New Innovation & Sales facility in Brisbane
- Development of the innovations program
- Multi-year supply contracts with infant formula companies
- **2009** - Frost & Sullivan Ingredient Company of the Year
- **2011** – AGP NPD program with CSIRO
- **2012** – Sale of FFI assets

## 2012-

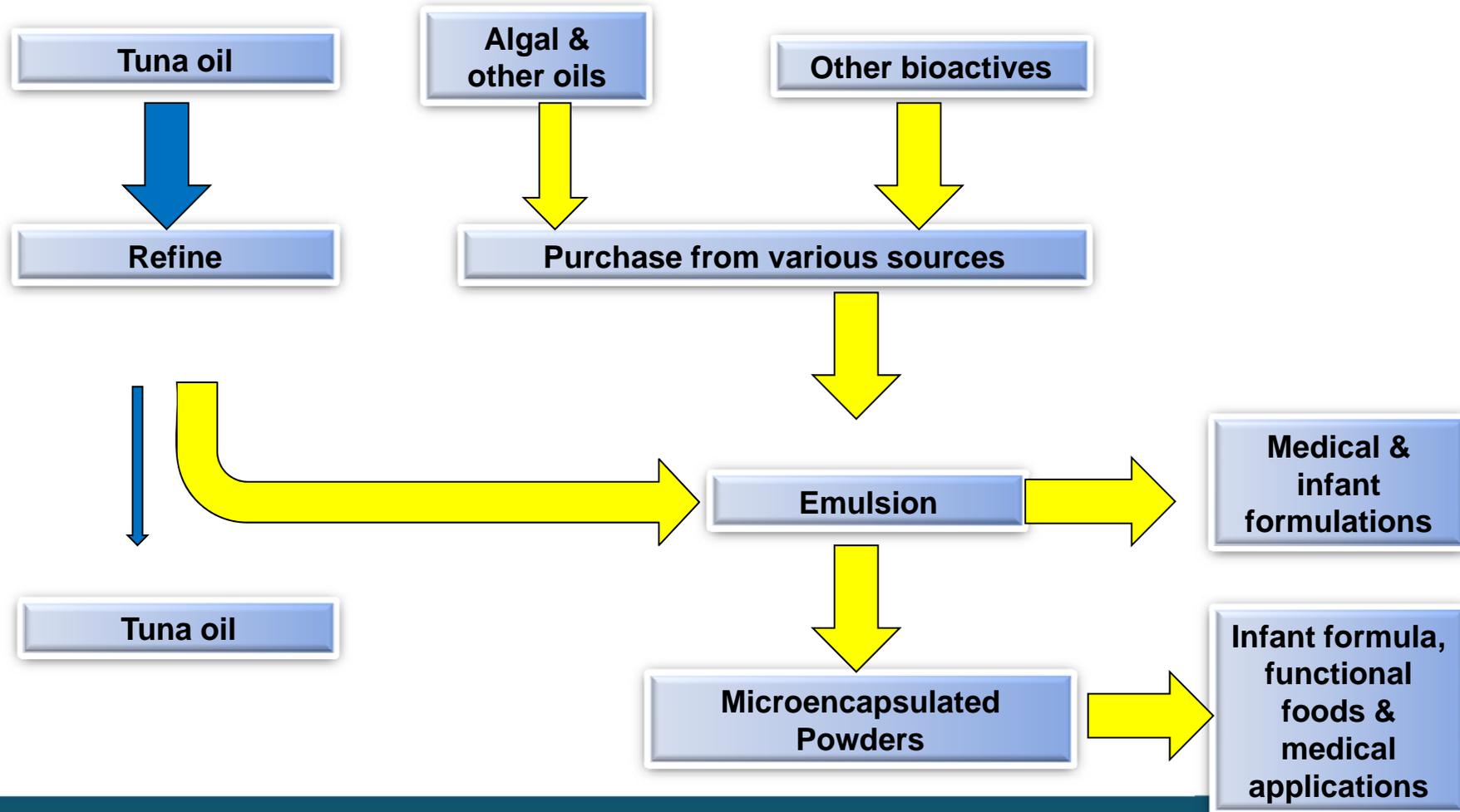
- Building business plan for medical related opportunities arising from core competencies
- Enters Phase 3 preterm infant formula trial – completion expected 2014



# OVERVIEW OF NU-MEGA OPERATIONS



Maximize the use of proprietary bioactive delivery technology



# CLOVER FY2012 RESULTS

## year ended 31 July 2012



AUD million	Year Ended 31 July 2012	Normalised* 31 July 2012	Unaudited 1 Aug'10 – 31 Jul '11	13 Months Ended # 31 July 2011
Revenue (\$m)	\$38.4	\$38.4	\$32.0	\$35.6
Profit before tax (\$m)	\$6.4	\$7.6	\$5.2	\$6.1
Depreciation/Amort (\$m)	(\$0.51)	(\$0.51)	(\$0.36)	(\$0.39)
Interest (\$m)	\$0.29	\$0.29	\$0.55	\$0.59
EBITDA (\$m)	\$6.6	\$7.8	\$5.1	\$5.9
EBITDA margin %	17.2%	20.3%	15.9%	16.6%
EBIT (\$m)	\$6.1	\$7.4	\$4.7	\$5.5
Tax (\$m)	(\$1.99)	(\$1.99)	(\$1.26)	(\$1.53)
NPAT (\$m)	\$4.4	\$5.6	\$4.0	\$4.6
EPS	2.61 cps	3.38 cps	2.40 cps	2.79 cps
ROE %	14.6%	18.7%	14.1%	16.4%

\* Normalised results are non-statutory measures and represent results from continuing operations. Expenses totalling \$1.22 million in respect of the joint venture, Future Food Ingredients Pty. Limited, have been excluded from the normalised results.

# Due to change in Financial year includes 13 months from 1 July 2010 to 31 July 2011.

# HISTORICAL FINANCIAL PERFORMANCE

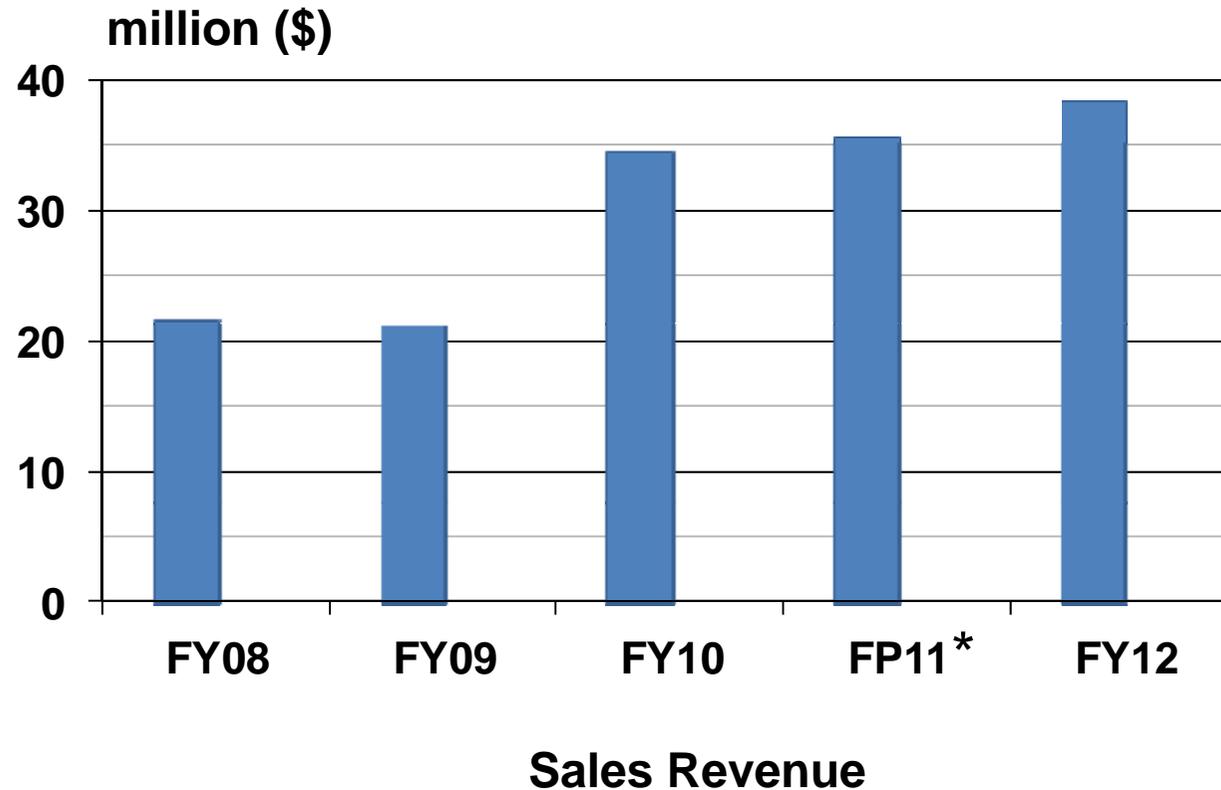


AUD million	FY2012	FP2011 (13 months)	FY2010	FY2009	FY2008	FY2007
Shares on issue (m)	165.2	165.2	165.2	165.2	165.2	165.2
Total contributed equity (\$m)	\$29.9	\$28.1	\$25.6	\$28.3	\$27.0	\$23.7
Cash total (\$m)	\$9.7	\$7.4	\$12.2	\$9.2	\$10.8	\$11.0
Sales Revenue (\$m)	\$38.4	\$35.6	\$34.9	\$21.1	\$21.6	\$16.5
Total Revenue (\$m)	\$38.7	\$36.2	\$35.9	\$22.9	\$22.9	\$17.7
Profit before tax (\$m)	\$6.4	\$6.1	\$1.6	\$4.5	\$3.0	\$1.3
Profit after tax (\$m)	\$4.4	\$4.6	(\$0.97)	\$3.1	\$4.1	\$0.6
EPS (cents)	2.61	2.79	(0.59)	1.87	2.5	0.38
ROE (%)	14.6	16.4	-3.8	10.9	15.3	2.7
Dividend (cps)	1.75	1.50	1.25	1.00	1.00	0
Market capitalisation* (\$m)	\$66.1	\$52.0	\$46.3	\$35.5	\$26.4	\$17.3

# HISTORICAL SALES REVENUE PERFORMANCE FY2008 to FY2012



CAGR since ASX listing = 13.9% p.a.#



# Source: Pitt Capital Partners Limited

\* 13 month period

# FY2012 HIGHLIGHTS – STRONG UNDERLYING GROWTH



- Strong growth in organic sales revenue (20.7% normalized PCP).
- Focus on infant formula & children applications (97% of total sales).
- Continued expansion of sales in Oceania and Asia.
- Increase in proportion of sales from high value encapsulated products (2012: 97%).
- Reduction in costs due to productivity improvements and other efficiencies.
- 5% decrease in NPAT due to costs of \$1.22 million associated with sale of FFI assets. The sale has been finalised.
- Customer evaluation of 5 new products is underway.
- Obtaining required regulatory approvals:
  - Novel Food approval by Health Canada for selected encapsulated ingredients.
- Upgrade of the Altona manufacturing facility (\$1.6 million).
- Generated positive free cash flow.
- 17% increase in dividend.

# CONTINUED FOCUS ON GROWTH MARKETS & VALUE ADDED PRODUCTS



- Sales revenue increased in all regions with the strongest performances during the year in Oceania and Asia.
- Focus has been on infant formula & children's food applications.
- The expansion of sales in value added encapsulated ingredient systems.
- Some infant formula markets have restrictions to entry such as;
  - USA mainly uses patent protected algal oils.
  - Europe uses mainly oils and there are regulatory restrictions.

## FY2012 Geographic

Oceania	26%
Asia	64%
Europe	6%
Americas	4%

## FY2012 Products

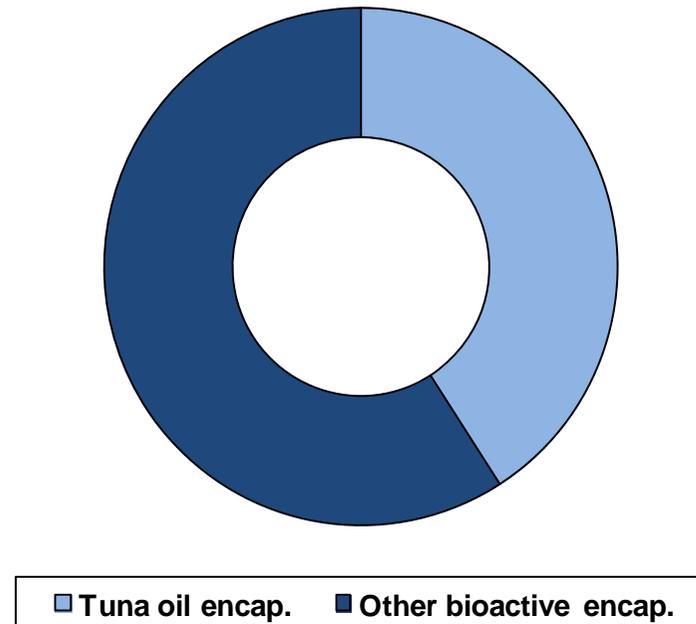
Oil	3%
Encapsulated Powders	97%

# DELIVERY SYSTEMS BASED ON A VARIETY OF NUTRITIONAL BIOACTIVES



- Product portfolio includes refined tuna oil and encapsulated powders containing marine oil, algal oils, other specialty oils and important micronutrients.
- Encapsulation technologies to improve the stability of important and sensitive nutritional materials and allow their use in many applications.
- Innovation program focuses on developing products that deliver valuable nutrients in infant formula and other applications.

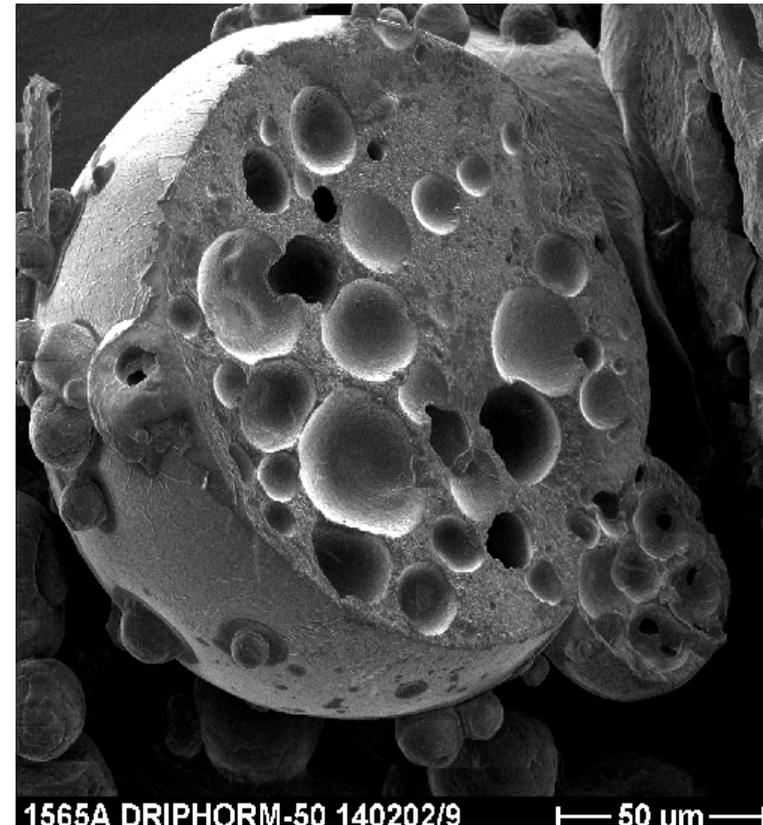
Sales Revenue based on Diversified Bioactives in FY2012



# COMPETITIVE STRENGTHS – A CULTURE OF COMMERCIAL INNOVATION

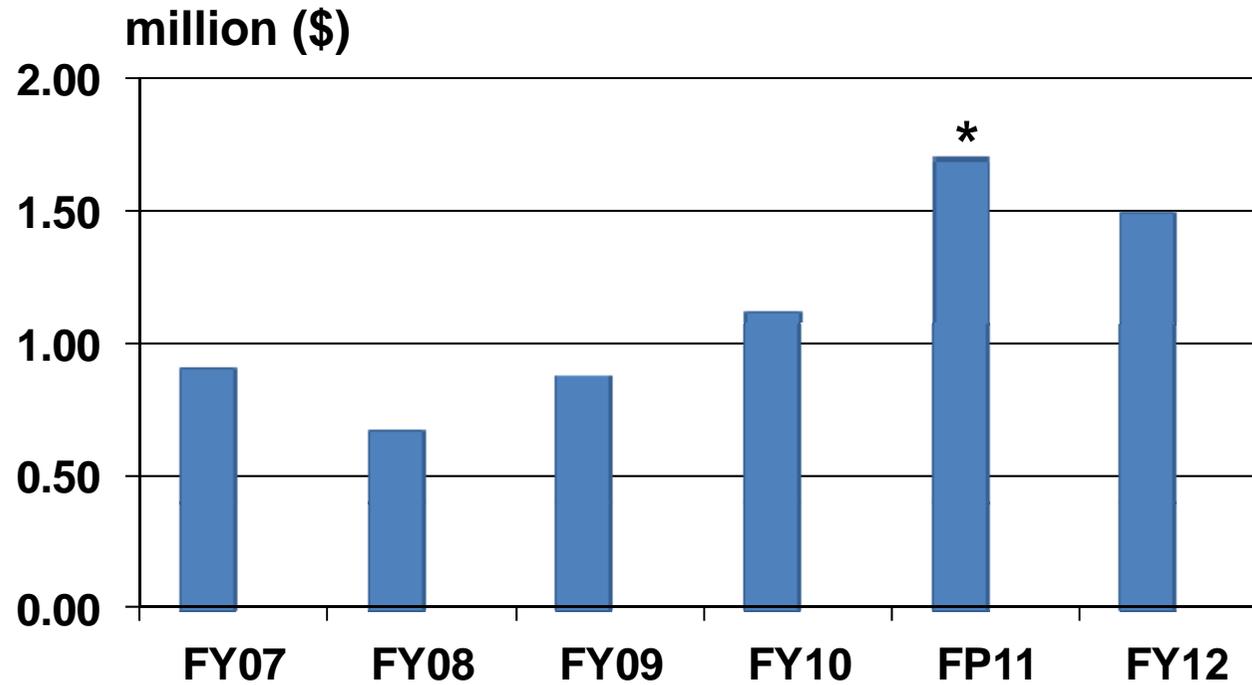


- **Clover's core strengths;**
  - Focus on value added markets
  - Proprietary & patented technology
  - Commercial focus on innovation program
    - Product first sales in 2010 achieved \$6.5 million sales in FY12.
  - High quality products & excellent reputation with clients
  - Dedicated and skilled staff
- Long term commercial relationships
- Strategic discipline focusing on core competencies
- Expanding product portfolio supported by sound science
- Targeted external research program
- Long product life cycle supported by rigorous customer evaluation
- Excellent customer & applications support
- Specialised distribution network
- Low capital model



# RESEARCH & DEVELOPMENT EXPENDITURE

(EXPENSED IN YEAR OF ACTIVITY)



R&D Expenditure

\* FP11 represents 13 months

# FOCUS ON THE GROWTH OF THE CORE BUSINESS



## Core business:

- **Continued focus on the infant formula and children's food market.**
  - Specialist delivery systems.
  - Targeted multiple bioactive delivery systems.
  - Improved bioactive protection.
  - Provision of improved value.
- **Currently have 6 base technologies for product development.**
- **Exploring new ways to commercialize Clover's intellectual property including licensing.**
  - The outcomes for the innovation program may have applicability beyond Clover's commercial focus.
- **Assessing new bioactives.**
- **Developing new markets / applications / relationships.**

# THE OPPORTUNITIES FOR MEDICAL APPLICATIONS



## Medical & Pharmaceutical applications:

- Clover has supported strategic clinical studies for many years and this assists in identifying new commercial opportunities.
- Medical issues that affect preterm infants include:
  - Cognitive or mental impairment.
  - Respiratory impairment .
- Incidence of premature births:
  - Preterm births globally approx. 13 million.
  - Preterm births requiring tertiary care approx. 4 million.
  - Preterm births in countries with critical care facilities approx. 1.6 million.
- Results of the initial clinical study reported in 2009 (+600 infants):
  - Improved cognitive development in girls at 18 months.
  - Reduced oxygen requirement at 36 weeks in boys.
  - Reduced incidence of hayfever.



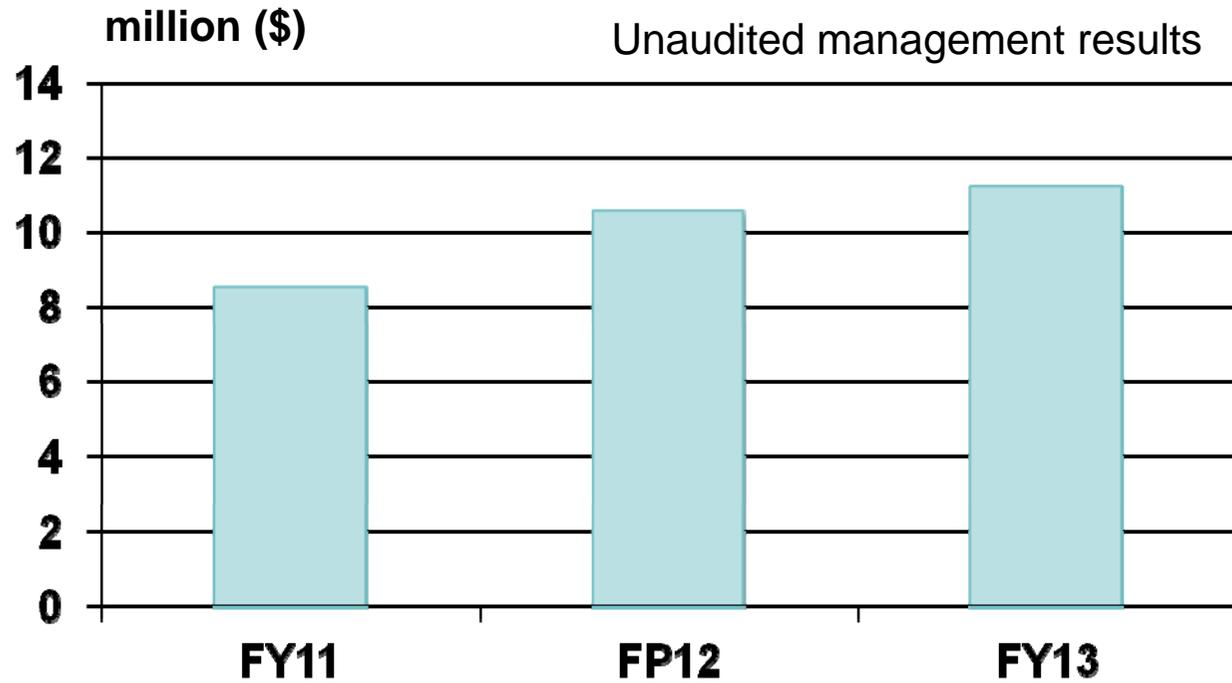
# PRETERM INFANT FORMULATION



- **Clover developed a specialty formulation for hospital use:**
  - Licence agreements signed & patent applications filed.
  - Finalised formulation and manufacturing requirements.
  - Successful clinical testing of the formulation and delivery system.
  - Product development supported by a major clinical trial underway.
- **Currently involved in Phase 3 international clinical study using the Clover product:**
  - Clinical study supported by grant funds.
  - Clinical trial (multiple sites) involves +1000 preterm infants.
  - Clinical results are projected to be available by end 2014.
- **Current focus:**
  - Obtaining required regulatory approvals.
  - Finalising the business, marketing & distribution plans.



# SALES REVENUE GROWTH OF +5.9% IN THE FIRST 3 MONTHS OF FY2013



Sales Revenue

Sales revenue from August, September & October

# FY2013 OUTLOOK & PRIORITIES



- Modest revenue growth in first half of FY2013.
- Continued organic growth with the emphasis on Oceania & Asia including China.
- Initial sales from products provided for customer evaluation in 2011.
  - Customer approval of new products can take 2 to 4 years.
- Advance the innovation program for specialty infant formula ingredients and medical applications.
- Industry consolidation has increased the competitive market and there will continue to be pressure on existing product sales.
- Continue to improve efficiencies and reduce costs.
- Balance sheet remains strong and there is liquidity to fund growth.
- Continue to explore opportunities for growth.



**THANK YOU**  
**Questions?**