

**CLOVER CORPORATION LIMITED**  
**ABN 85 003 622 866**

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**CHAIRMAN'S ADDRESS**

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I am pleased to inform shareholders that Clover Corporation has delivered a strong result for the last financial year as management continues to successfully implement the company's strategic plan.

Reported net profit after tax for the 12 months ended 31 July 2017 was \$3.6m, up from \$2.2m for 2016 FY.

Revenue for the year increased by 11.5% to \$47.9m due to improved orders to existing customers and the successful diversification of our customer base. Improved product mix, good plant efficiencies, and tight cost control combined to deliver improved gross margin and as a result, much improved profit result.

Dividend for the year increased by 33% due to the improved profit result and free cash flow.

The revitalised commercial team has been in place for most of the financial year and is focused on business development into new territories, markets and products. Clover has worked with its distributors to introduce its unique products and collaborated with potential customers on product applications to meet their specific market requirements. Whilst some of these opportunities have already delivered revenues, the longer term work of product development, shelf life and market testing has created a good pipeline of opportunities that have the potential to deliver the next phase of Clover's growth plans.

**China**

China continues to be a major market for infant formula. Chinese sales for infant formula had flattened in the first half of the financial year, with uncertainty in the market around new Chinese infant formula regulations. In March 2017 it was clarified that the Cross Border Electronic Commerce channel would remain in place. As a result, demand improved markedly in the second half of the year. Future Chinese regulatory changes to the import regime for infant formula could adversely affect Clover's revenues.

**Europe**

EU regulations now require that all infant formula sold in the EU from 2020 must contain a minimum of 20mg of DHA per serve, an increase from the previous requirement which averages 10mg per serve. EU customers are now preparing for the change and this is translating to increased collaboration with our customers. This has started to translate into increased demand for our products, with sales in this region improving by 65% as compared to the prior year, albeit from a low base.

**Australia & New Zealand**

Clover has benefited from changed Chinese regulations allowing the Cross Boorder Electronic Commerce to continue, which has provided Australian and New Zealand manufacturers the opportunity to enjoy improved trade with China. The Waikato facility is now fully operational with batch production on a regular basis. This facility has enabled the production of Clover's new products in niche applications such as the hypoallergenic and concentrated DHA product for sports nutrition and health applications.

In Australia and New Zealand, there has been significant investment in infant formula capacity focused on supplying Asian markets from the high quality dairy inputs. Clover is working with these suppliers to secure future business.

**Americas**

Clover has developed a strong relationship with a new distributor in the USA with a focus on opportunities into the growing sports nutrition, food and wellbeing markets. There is long lead time on

commercialising these opportunities, however we are encouraged by the collaborative engagement to date. Our underlying infant formula business in this region has shown consistent growth.

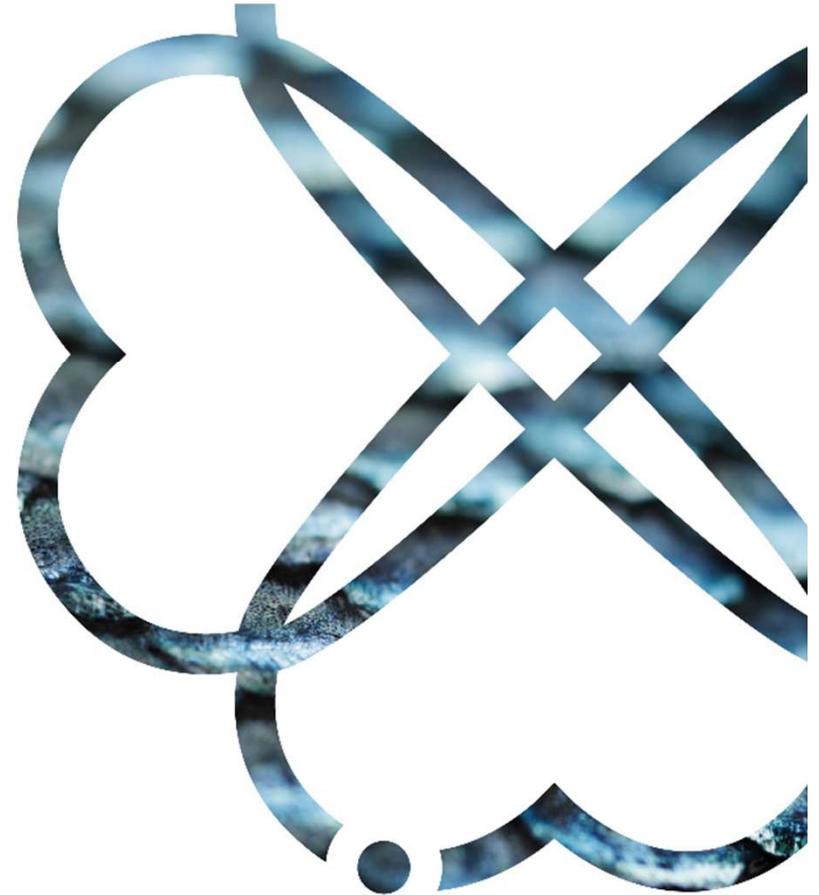
**Dividend**

Based on the performance of Clover in FY17 the Directors have declared a fully franked final dividend for FY17 of 0.75 cent per share, which was paid this week. This takes the FY17 full year dividend declared to 1.0 cent per share, an increase of 33% over last year.

The outlook for FY18 remains positive, with order patterns for the first half consistent with the second half of last year and business development activities in new markets and segments delivering positive testing results.

Finally, I would like to acknowledge the significant contribution Peter Robinson made to the development of Clover Corporation during his tenure as Director and Chairman of the company over many years up to his recent retirement.

# Managing Director's Report 12 Months to 31 July 2017



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Clover Corporation Presentation  
Peter Davey- Managing Director & CEO  
24 November 2017



# Vision and Mission Statement

## Vision

To optimise the health and development of adults, infants and children.

## Mission

To deliver science based bioactives which provide health benefits to the adults, infants and children

# Full Year Performance Highlights

- ✓ Total Revenue **\$47.9m**  
up **12%** driven by improved demand; highest ever recorded revenue
- ✓ Net Profit **\$3.6m** up **64%** on 2016 \$2.2m.
- ✓ Operating Expenses **\$6.1m**; investment in people to develop new products and sales
- ✓ **Acquisition** of the factory facility completed in Oct'17
- ✓ New products released to develop additional market segments in Sports Nutrition
- ✓ Inventory at **\$18.8m** up 33% on prior year to meet increased demand
- ✓ Balance Sheet remains strong with no debt and cash of **\$5.9m**
- ✓ Final year dividend declared of **0.75 cent** per share, a 50% increase for the final year dividend declared on FY16

# Market Update

## Market changes

- New Chinese infant formula regulations requiring manufacturers to hold a CFDA license by January 2018
  - 30 Sept 2017 361 CFDA Lic. Granted
  - 5 additional CNCA Lic. in Australia
- New EU regulation requiring the mandatory inclusion of DHA in infant formula by 2020
- Consumers preference for non-China manufactured infant formula
- China extends CBEC (Cross Boarder Electronic Commerce) market to the end of 2018

## Outcomes for Clover

- Regulated Chinese infant formula industry and increased quality controls position Clover as a premium supplier. Many of Clover's customers have achieved a license or are in process.
- EU infant formula manufacturers will use encapsulated DHA like Clover's product to meet new regulations
- Australia / New Zealand brands are in demand, increasing demand for Clover ingredients
- Clover supplies to manufacturers who benefit from the extended CBEC trade
- Clover has seen enquiries from new businesses currently qualifying our products for use in food & infant formula



# Full Year Results

2017

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# Full Year 2017 Results

AUD million	4E Reported 31 Jul 2017	4E Reported 31 Jul 2016
Revenue	\$47.9	\$42.9
EBITDA	\$6.1	\$3.3
EBIT	\$5.5	\$2.8
NPBT	\$5.0	\$3.1
Tax	(\$1.4)	(\$0.9)
NPAT	\$3.6	\$2.2
EPS	2.20 cps	1.34 cps
ROE (annualised)	11.7%	7.4%

- ♣ 11.5% year on year revenue growth
- ♣ Increased sales across all markets
- ♣ EBIT \$5.5m (PY \$2.8m)
- ♣ NPBT of \$5.0m includes ~\$0.5m unrealised forex loss on AUD:USD appreciation in June & July 2017
- ♣ Fixed costs managed \$6.1m (PY \$5.8m)
- ♣ NPAT result \$3.6m (PY \$2.2m)

# Balance Sheet 31 July 2017

AUD million	Reported 31 July 2017	Reported 31 July 2016	Movement
Cash	\$5.9	\$8.2	2.3 ↓
Trade Receivables	\$12.1	\$10.9	1.2 ↑
Inventories	\$18.8	\$13.6	5.2 ↑
Total Current Assets	\$37.6	\$33.1	4.5 ↑
PPE/Intangible Assets	\$5.0	\$6.7	1.7 ↓
Total Assets	\$42.6	\$39.8	2.8 ↑
Trade Payables	(\$9.2)	(\$8.5)	0.7 ↑
Total Current Liabilities	(\$9.9)	(\$9.5)	0.4 ↑
Total Liabilities	(\$10.0)	(\$9.6)	0.4 ↑
Net Assets	\$32.6	\$30.2	2.4 ↑

♣ Cash balance strong \$5.9m

♣ Trade receivables reflect the increased sales activity

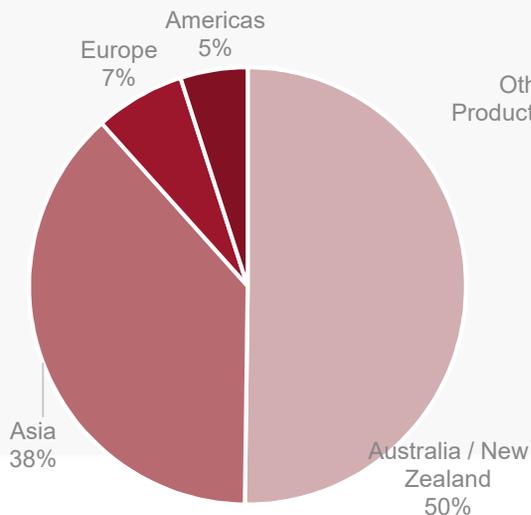
♣ Inventory levels increased to meet demand

♣ Payables managed in line with increased activity

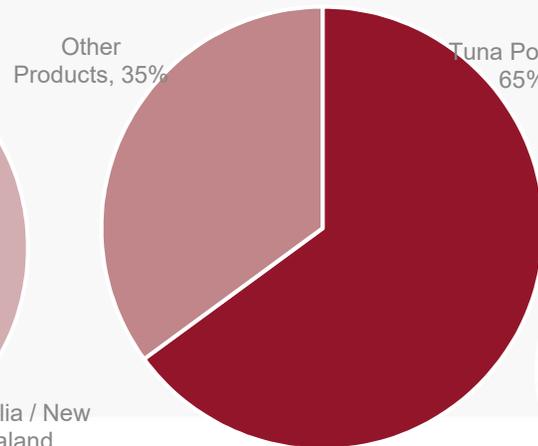
# Sales by Geography & Product

- ♣ Sales across all regions have grown during 2017
- ♣ European and American markets provide new opportunities
- ♣ Encapsulated Tuna oil leads sales revenue with encapsulated Algal oils and other oils represented in other products

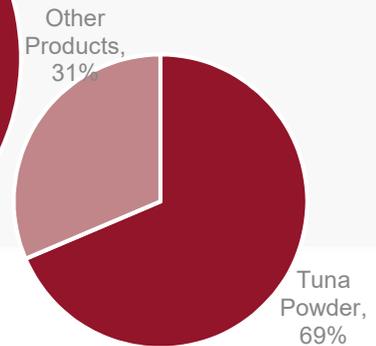
**FY 2017 Geographic**



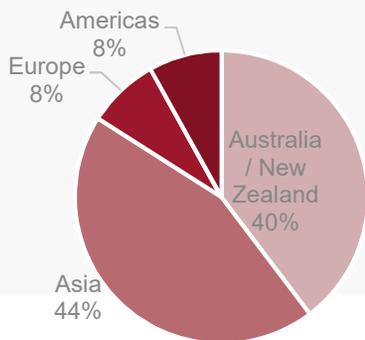
**FY 2017 Product**



**FY 2016 Product**



**FY 2016 Geographic**



# An Update on Growth Platforms

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# Growth Platform

## Infant formula provides further growth

- ♣ The Chinese regulators changed rulings during 2017. Initially they proposed banning 'grey imports' (called CBEC) closing the channel to market for many infant formula brands, and reducing demand in the first half year
- ♣ In March 2017 regulators placed the ban on hold, allowing manufacturers to re-enter the market through this channel and increasing demand for Clover's products
- ♣ New European regulations requiring the inclusion of a minimum 20mg DHA dosage (currently avg.10mg) in all infant formula by 2020 remains a growth opportunity for Clover



# Growth Platform

## Products for new segments

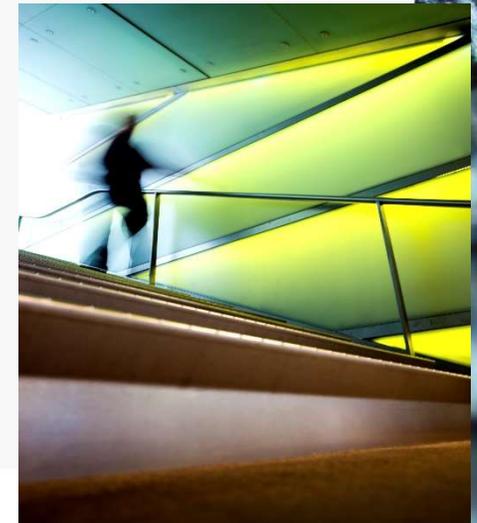
- ♣ Clover's Hypoallergenic DHA product is now being purchased and used in infant formula applications
- ♣ A new highly concentrated DHA product which delivers 60% oil in a powder form is on trial with major manufacturers who are seeking to fortify products with high levels of DHA for the sports nutrition market
- ♣ Clover purchased a bench top spray dryer which has accelerated new product development, such as the patent application for a new technology allowing phospholipids from krill and tuna oil to be encapsulated



# Growth Platform

## New markets development

- ♣ Clover has aligned with distributors across the USA, Europe & Asia, providing market access and the capability to service new customer opportunities
- ♣ To generate a presence in the market and achieve exposure to new segments, Clover has participated in a number of key food ingredients shows; Supply Side West - USA, Vita Foods - EU, Food Ingredients - China and Foodpro- Australia
- ♣ Clover has added emerging infant formula manufacturers to diversify the base of the business



# FY2018 Outlook & Priorities

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- ♣ First half FY2018 sales are in line with second half 2017, assisted by pipeline fill in the China CBEC market, however the China region continues to be susceptible to unexpected regulatory change
- ♣ Further market development achieved through a specialised distribution network
- ♣ New product development is enhancing our capability to fortify foods, drinks and other products with Omega 3
- ♣ Growth into new markets of India and the Middle East
- ♣ Research & Development in collaboration with customers
- ♣ Further growth in our pool of talented people
- ♣ Strategic acquisition and/or partnership to build value

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