



**Clover Corporation Limited**

ABN 85 003 622 866

**ASX ANNOUNCEMENT**

**28 November 2014**

The Manager  
Company Announcements Office  
ASX Limited  
20 Bridge Street  
SYDNEY NSW 2000

**2014 ANNUAL GENERAL MEETING**

Enclosed is the transcript of the Chairman's Address and a copy of the presentation by the acting CEO, which are both to be delivered at the 2014 Annual General Meeting of Clover Corporation Limited scheduled to commence at 11:00am today.

Signed for and on behalf of Clover Corporation Limited.

Jaime Pinto  
Company Secretary



## Clover Corporation Limited Chairman's Address 2014

As highlighted at last year's Annual General Meeting ((AGM) and in trading updates during financial year 2014 (FY'14), Clover Corporation Limited (Clover) experienced difficult trading conditions throughout the 2013-2014 financial year.

Shareholders would be aware that Clover's sales to a number of important trading customers were impacted by Fonterra Co-operatives milk powder contamination announcement in August 2013 and subsequent recall of product from the market. The contamination was as a result of a defective manufacturing process and Clover's products were not involved in the incident.

As a consequence of extensive media coverage and precautionary product recalls in several countries including New Zealand, Thailand and China, the heightened concern about safety of infant formula resulted in a decline in infant formula sales by some of Clover's customers in the affected countries.

The impact of the product recalls and concern about safety of infant formula, particularly in China, resulted in a decline in sales of 38.3% to \$27.2 million for FY'14. Net profit for the year was \$1.0 million, down from \$6.1 million recorded last year.

Based on the performance of Clover in FY'14, a final fully franked dividend of 0.5 cents per share was paid on 20 November 2014, taking the full year fully franked dividend to 1.0 cent per share, compared with 2.0 cents per share paid last year. We acknowledge that the FY'14 dividend payment is a reduction against FY'13, however consider it prudent given the trading conditions experienced throughout FY'14.



The impact of the Fonterra incident has varied from customer to customer. From a revenue perspective, customer ordering patterns suggest that affected customers are beginning to regain lost market share. For the three months August'14 – October'14 sales have increased by 21% to \$10.8 million dollars compared to the same period last year. However there is some concern that sales into China lag the improvement in other areas. Gross margins continue to come under pressure however this is being offset by operating expense control.

The Balance Sheet as at July 2014 continues to show a cash balance of \$8.0 million, in line with last year. We recognise that inventory levels remain at too high a level at \$16.5 million and a strategic review is in place to reduce this number. As at October 2014 inventory levels have been reduced to \$14.8 million. Management continues to focus on this key area of working capital management.

Research & development continues to play an important role within the Company. Expenditure in this area totaled \$1.9 million in FY'14, a slight increase over FY'13. Glenn Elliott now heads up this important function. Currently there are three new product development areas being worked on in conjunction with customers, two relate to new generation products and the other an opportunity to enter the single cell market (algal oil). To expedite this opportunity Clover has invested \$500,000 in a secondary spray dryer in New Zealand to assist in new product development and manufacture to accelerate supply of new products to customers.

The Phase 3 Clinical Trial to test the effectiveness of Clover's DHA emulsion in reducing the incidence of Broncho-pulmonary Dysplasia (BPD) in preterm infants is progressing well. BPD is a chronic lung disorder that is most common among children who are born prematurely.



The trial, which involves hospitals in three countries, is progressing with results likely to be available by mid 2015. There are now 900 babies involved in the trial.

On 24 September 2014 our patented high dose DHA emulsion and associated delivery system received Generally Regarded as Safe (GRAS) status for use in pre-term infants. GRAS is a status assigned by the United States Food & Drug Administration (FDA) to substances not known to be hazardous to health and then approved for use in foods.

This successful GRAS outcome is a significant and critical milestone in Clover's medical food program which is being run by Dr Craig Patch.

Currently the board and management are exploring various ways to fund not only the commercialisation of the first product in the medical foods program but also the pre-clinical development of a novel fatty acid targeted at gastrointestinal health in pre-term infants.

As shareholders would be aware, former Managing Director, Dr Ian Brown resigned from the Company in March 2014 after not wishing to renew his contract. Ian was a great servant to the Company over nine years and I'm sure the shareholders join with me in thanking Ian for his contribution over this period and on your behalf I wish him well for the future.

After a lengthy search Clover has announced the appointment of Mr Peter Davey as Managing Director & CEO, effective 1 December 2014. Peter has held senior management positions within a number of manufacturing and distribution companies operating in competitive and diverse markets and has particular strengths in sales and marketing and development and implementation of strategies for growth.



Peter was formally Executive Manager Agriproducts and a director of Viterra Australia Limited responsible for sales of more than \$850 million with 140 staff. In his role Peter also directed the research and development activities at Viterra Australia successfully managing joint venture activities with the Grain Research and Development Corporation and various international organizations commercialising new products.

On behalf of the board and shareholders I would like to thank Mr Darren Callahan, our Chief Financial Officer, who has acted as CEO responsible for the day-to-day running of the company since April of this year. Darren and the senior management team have made considerable progress in moving Clover's activities forward during this interim period.

Through its new product development and medical foods initiative, Clover has positioned itself for its next stage of growth. The first three months of this financial year has shown positive signs that our affected customers are starting to regain lost market share. The key to the next 12 months is our customers selling into China where their progress to re-gather momentum has faced some resistance. As always, Clover's management and staff are assisting their activities.



# Annual General Meeting 28 November 2014

NEXT GENERATION NUTRITION

# VISION AND MISSION STATEMENT CLOVER CORPORATION

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- **Vision: To optimise the health and development of infants and children.**

**Mission: To deliver science based bioactives to the global infant, children and medical food markets that provide health benefits.**

# FY2014 RESULTS



AUD million	4E Reported 31 July 2014	4E Reported 31 July 2013
Revenue	\$27.2	\$44.1
Profit before tax	\$1.2	\$8.5
EBITDA	\$1.6	\$8.8
EBIT	\$1.1	\$8.3
Tax	(\$0.3)	(\$2.43)
NPAT	\$1.0	\$6.1
EPS	0.59 cps	3.80 cps
ROE (annualised)	3.4%	19.2%



# BALANCE SHEET

## 31 July 2014



AUD million	Reported 31 July 2014	Reported 31 July 2013	Movement
Cash	\$8.0	\$8.3	0.3↓
Trade Receivables	\$6.9	\$12.0	5.1↓
Inventories	\$16.5	\$14.0	2.5↑
Total Current Assets	\$32.9	\$34.7	1.8↓
PPE/Intangible Assets	\$4.9	\$5.3	0.4↓
Total Assets	\$39.5	\$41.5	2.0↓
Trade Payables	(\$8.6)	(\$7.7)	0.9↑
Total Current Liabilities	(\$9.2)	(\$8.7)	0.5↑
Total Liabilities	(\$9.4)	(\$9.1)	0.3↑
Net Assets	\$30.1	\$32.4	2.3↓

# CASH FLOW

## Year ended 31 July 2014



AUD million From Operations	Reported 31 July 2014
EBITDA	\$1.6
Working Capital Movement	\$3.5
Net Interest	\$0.1
Tax Paid	(\$2.0)
Cash Flow from Operations	\$3.2
Financing Activities	(\$3.3)
Capex	(\$0.2)
Net Cash Flow	(\$0.3)

## FY2014 KEY ITEMS



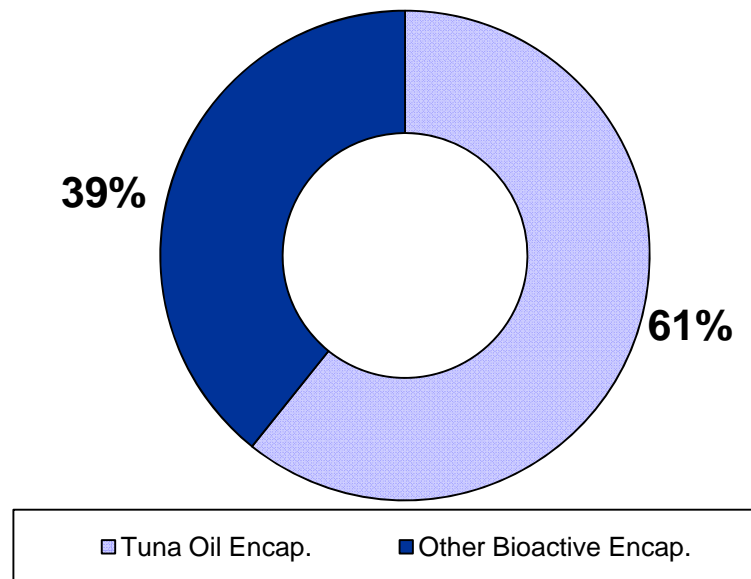
- Significant negative revenue impact NZ WPC (-38.3% PCP)
- Some recovery evident CY14 Q3
- Oceania and Asia remain key geographic sales regions
- Derivative powder products gaining traction
- Continued gross margin pressure, down to 29.0% (PCP 35.1%)
- Fixed costs managed downwards
- Future supply of oil assured
- Low NPAT result \$1.0m (PCP \$6.1m)
- Cash balance strong (\$8.0m), reduced final dividend payment of 0.5c (PCP 1.5c)

# DELIVERY SYSTEMS BASED ON A VARIETY OF NUTRITIONAL BIOACTIVES



- Product portfolio includes encapsulated powders containing marine oil, algal oils, other specialty oils and important micronutrients
- Encapsulation technologies protect important and sensitive nutritional materials and allow their use in many applications

Sales Revenue based on Diversified Bioactives in FY2014



# SALES BY GEOGRAPHY/PRODUCT



- Continued strong presence though Oceania and Asia
- Encapsulation technology strong and proven

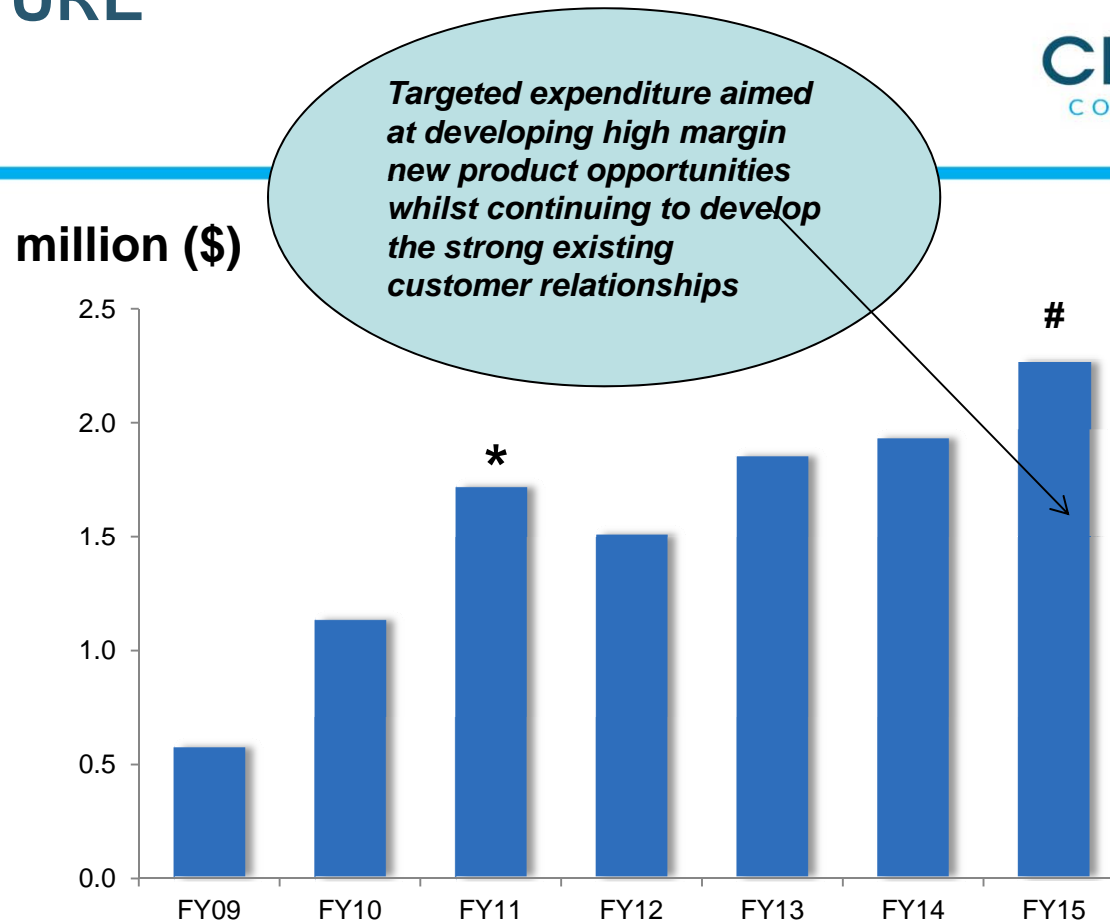
## FY2014 Geographic

Australia/New Zealand	22%
Asia	58%
Europe	14%
Americas	6%

## FY2014 Products

Oil	4%
Encapsulated Powders	96%

# RESEARCH & DEVELOPMENT EXPENDITURE



**R&D Expenditure**

\* FY11 represents 13 months  
# FY15 Budget estimate

# GROWTH OBJECTIVES



- **Continued focus on the infant formula market**
  - **Specialist delivery systems**
  - **Developing new markets/applications**
  - **Improved bioactive protection**
- **Develop medical food program**
  - **Product pipeline to improve the health of preterm infants**
  - **Major clinical trial underway for respiratory health (800 of 1,244 target babies recruited)**
  - **Clinical trial on target for completion mid 2015**
- **NZ spray dryer investment and product diversification to stabilise the gross margin**
- **Assessing new bioactives and growth opportunities**

## FY2015 OUTLOOK & PRIORITIES



- **Work with existing customers to regain lost revenue**
- **Continued organic growth with emphasis on Oceania, Asia and Europe**
- **Investment in NZ spray dryer to partner with customers to supply new sources of oil to address new market opportunities**
- **Continue to advance the Medical Food Program**
- **Continue to improve efficiencies and reduce costs**
- **Add value through strategic acquisition and/or partnership**





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

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