



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

**ASX ANNOUNCEMENT**

**29 November 2013**

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

**2013 ANNUAL GENERAL MEETING**

Enclosed are transcripts of the Chairman's Address and the Managing Director's Report to be delivered at the 2013 Annual General Meeting of Clover Corporation Limited, which is scheduled to commence at 11:00am today.

Signed for and on behalf of Clover Corporation Limited.

Jaime Pinto  
Company Secretary

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## **CLOVER CORPORATION LIMITED**

### **Chairman's Address 2013**

Despite a challenging trading environment, Clover Corporation Limited (Clover) reported a credible result for 2013.

Net profit after tax increased by 39% to \$6.1m during the period. Adjusting the 2012 result for expenses totalling \$1.22m in respect of the closed joint venture Future Foods Ingredients Pty Ltd, profits increased by 9% on a normalised basis.

This result was achieved on revenue of \$44.1m, an increase of 15% on last year. The company continues to focus on sales of products for use in infant formula and children's' food. These now account for 98% of total sales revenue. Sales from high value encapsulated powders account for 97% of revenues.

During this calendar year (February & November 2013) Clover re-signed two important 5 Year Global Supply Agreements with major multinational infant formula companies to supply Hi-DHA oil and microencapsulated Driphorm<sup>®</sup> powders. These agreements continue a long term beneficial technical and commercial relationship based on superior customer service, flexibility and innovation during which Clover has been a major supplier.

Innovation is the core of Clover's competitive strength. We continue to invest in line with our business strategy. There was an increase in the R&D spend to \$1.8 million compared with \$1.5 million last year. This reflects the increase in research

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associated with new encapsulated products, encapsulation enhancing agents and the Medical Foods initiative around Pre-Term infant medical foods.

Clover has developed a pipeline of new products. Some of these are well advanced in customer appraisal and approval processes. Events in New Zealand, of which I will talk more about, caused delays. Despite these issues, we are confident new revenues will start to flow in 2014.

As shareholders are aware we started the preterm medical foods initiative in 2004 through involvement in the DINO Study (Docosahexanoic Acid [DHA] for the Improvement of Neurodevelopmental Outcome in Preterm infants). This study was designed to assess if increasing the amount of DHA that a premature baby receives can improve their long term growth and development. The DINO study showed significant improvements in a number of areas including a reduction in the incidence of a serious respiratory condition called bronchopulmonary dysplasia (BPD) which is a major cause of morbidity and mortality in the preterm infant. Tuna oil high in DHA from Clover was used in the DINO study.

The Pre-Term infant high DHA product and delivery system developed by Clover is currently in a Phase 3 clinical study. This trial is being conducted in Australia and overseas. We are pleased with the results to date and the clinical trial is progressing well. It involves approximately 1,250 pre-term infants born at less than 29 weeks. The clinical trial will ascertain if the Clover product can lead to a reduction in the incidence of BPD compared to standard treatments.

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The clinical trial is due to be completed by the end of 2014 with the results of the trial to be available mid 2015. This study is an important milestone for the project. Given our progress, we are now developing the strategy and business model to commercialise the initial medical food product, including regulatory, manufacturing and commercial plans.

Normally at this point in my address I provide shareholders with an update on trading for the first three months of the financial year. At previous meetings I have been able to deliver good news on sales revenue growth however the start of this year has seen sales significantly affected by Fonterra Co-Operative's milk powder contamination announcement in August 2013 and subsequent recall of product from the market. The contamination was a result of a defective manufacturing process and Clover's products were not involved in the incident. Milk powder is, however, an important ingredient in most infant formula preparations.

As a consequence of extensive media coverage and precautionary product recalls in several countries, including New Zealand, Thailand and China, the heightened concern about the safety of infant formula has resulted in a decline in infant formula sales by some of Clover's customers in the affected countries. However we are now starting to see some adjustments in the market with our customers unaffected by the product recall increasing market share. The initial impact of the incident resulted in sales for the first quarter being down 19.9% on the same period last year.

Management is doing everything possible to recover the position however this is dependent on the length of time it takes our customers to return to normal market

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conditions. We expect the disruption to sales to be temporary but caution that it may take up to twelve months for normal market conditions to return. Sales for the full year could be down by between 20-30% compared to last year.

Senior staff have visited all major customers and understand what they are doing to regather sales momentum. You may have seen an increase in infant formula marketing and advertising in recent months to lift the profile of several brands in the marketplace.

Longer term, we expect the infant formula market to continue to grow, especially in China. We note the news released last week by the Chinese Government that they intend to relax the 'One Child Policy' which was introduced in 1979. Independent commentators indicate that this may lead to a doubling of the Chinese infant formula market by 2017. We are well placed to capitalise on this potential opportunity.

Clover has a strong balance sheet and can trade through this difficult period. During 2013 working capital increased, in particular, though increased levels of oil inventory to meet our customer's requirements and for the qualification of new sources of tuna oil. We expect to see a number of customers move to a direct oil injection process in coming years. This would mean Clover selling higher volumes of oil to those customers. With this in mind, we are now sourcing tuna oil from four separate locations around the world to meet this expected demand. We expect to see these inventory levels revert back to more normal levels in 2014 which will result in a strong cash position in July 2014.

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Based on this more than satisfactory performance for the year, your directors have declared and paid a fully franked final dividend of 1.5 cents per share. Together with the interim dividend of 0.5 cents per share paid in March 2013 the total dividend for the financial year was 2.0 cents per share, a 14% increase over last year.

Finally, as shareholders are aware Dr Ian Brown, Managing Director & CEO, has advised that he will not be renewing his contract beyond 26 June 2014. Ian joined the company in 2006 and during his tenure as Managing Director has been instrumental in Clover's success in bringing innovative new products to commercialisation. When Ian and I sat down in 2006 we planned to take Clover in a different direction leading to a focus on high margin value added products in the infant formula market. Through Ian's leadership, Clover is now a significant supplier of microencapsulated powders to the global infant formula market with sales increasing from \$17.2 million in 2006 to \$44.1 million last year. During the same period Clover's net profit after tax, increased from \$0.5 million to \$6.1 million and a fully franked dividend has been paid to shareholders in each of the last 6 years.

We were fortunate to find someone with Ian's scientific and technical capability moulded with commercial acumen to lead a company such as Clover. His skills and abilities were instrumental to Clover's success through this period. It has been a pleasure working with Ian, we thank you for your contribution and wish you, Cheryl and your family good health and happiness in the future.



Clover is positioning for a new stage of growth. We will continue to execute our strategy of commercialising our intellectual property. No doubt there will be challenges too. The search for a new Managing Director to lead us going forward is well advanced and shareholders will be advised as soon as a decision is made.

It is now my pleasure to hand over to our Managing Director, Dr Ian Brown.

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# Managing Director Report for AGM

## 29 November 2013

NEXT GENERATION NUTRITION

# POSITIONING FOR GROWTH



- **Strategic vision & business description**
- **Contaminated whey protein concentrate in New Zealand**
- **2013 financial performance**
- **Operational review**
- **Clover's competitive strengths**
- **Infant formula in China**
- **Research & Development**
- **Priorities**
- **Preterm medical food project**
- **FY2014 Outlook**

# 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



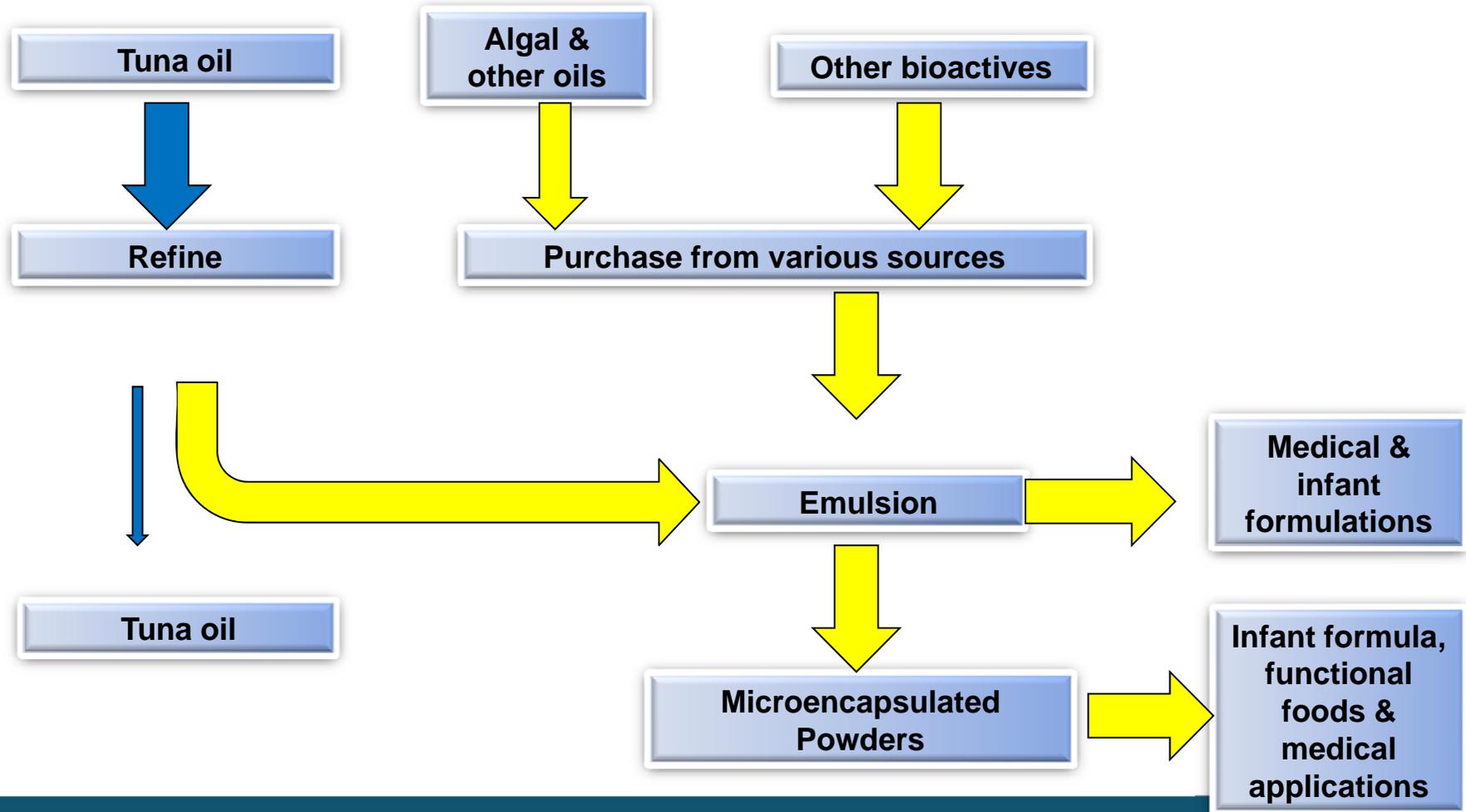
- **Focus on two business units:**
  - Clover Corporation focuses on innovation, obtaining the optimal return from proprietary technology and developing new business opportunities
  - Nu-Mega Ingredients (100% owned subsidiary) commercialises proprietary ingredient delivery and encapsulation technology 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 37 staff, including 5 PhD's, with offices in Sydney, Melbourne, Brisbane and UK**

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# OVERVIEW OF NU-MEGA OPERATIONS



Maximize the use of proprietary bioactive delivery technology



# CONTAMINATED MILK POWDER INCIDENT IN NEW ZEALAND



- August 2013 Fonterra New Zealand announced they had produced and distributed microbiologically contaminated whey protein concentrate.
- Fonterra manufactured infant formula and supplied whey protein concentrate to other infant formula manufacturers.
- Food safety procedures led to infant formula product recalls in New Zealand, Thailand and China.
- These actions and the adverse publicity has resulted in a loss of consumer confidence and a significant reduction in sales of infant formula by affected companies in a number of countries.
- Clover has been affected through a reduction in sales to affected infant formula companies.
- The impact is considered temporary but this incident is estimated to reduce Clover's sales revenue in FY2014 approximately 20% - 30% pcp.
- Fonterra has since announced the incident was a "false alarm".

# CLOVER FY2013 RESULTS

## year ended 31 July 2013



AUD million	Year ended 31 July 2013	Year Ended 31 July 2012	Normalised* 31 July 2012
Revenue (\$m)	\$44.1	\$38.4	\$38.4
Profit before tax (\$m)	\$8.5	\$6.4	\$7.6
Depreciation/Amort (\$m)	(\$0.50)	(\$0.51)	(\$0.51)
Interest (\$m)	\$0.21	\$0.29	\$0.29
EBITDA (\$m)	\$8.8	\$6.6	\$7.8
EBITDA margin %	20.0%	17.2%	20.3%
EBIT (\$m)	\$8.3	\$6.1	\$7.4
Tax (\$m)	(\$2.43)	(\$1.99)	(\$1.99)
NPAT (\$m)	\$6.1	\$4.4	\$5.6
EPS	3.68 cps	2.61 cps	3.38 cps
ROE %	19.2%	14.6%	18.7%

\* 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.

# HISTORICAL FINANCIAL PERFORMANCE



AUD million	FY2013	FY2012	FP2011 (13 months)	FY2010	FY2009	FY2008	FY2007
Shares on issue	165.2 m	165.2 m	165.2 m	165.2 m	165.2 m	165.2 m	165.2 m
Net cash total	\$8.3	\$9.7	\$7.4	\$12.2	\$9.2	\$10.8	\$11.0
Sales Revenue	\$44.1	\$38.4	\$35.6	\$34.9	\$21.1	\$21.6	\$16.5
Profit before tax	\$8.5	\$6.4	\$6.1	\$1.6	\$4.5	\$3.0	\$1.3
Profit after tax	\$6.1	\$4.4	\$4.6	(\$0.97)	\$3.1	\$4.1	\$0.6
Normalised NPAT *	\$6.1	\$5.6	\$4.0	\$4.7	\$3.5	\$2.7	\$0.9
EPS (cents)	3.80	2.60	2.70	(0.59)	1.87	2.5	0.38
Interim Dividend (cps)	0.5						
Final Dividend (cps)	1.50	1.75	1.50	1.25	1.00	1.00	0
ROE (% ex cash) (results as reported)	25.2	21.7	22.3	-7.2	16.2	25.5	5.0

\* Normalised NPAT has removed impairments and extraordinary items.

## FY2013 OPERATIONAL REVIEW – DELIVERING ON EXPECTATIONS



- Strong growth in organic sales revenue (+14.9% from 2012).
- Focus on higher value infant formula & children applications (2013: 98%).
- Continued expansion of sales in Oceania (2013: +67%).
- Re-signed 5 year supply agreement with multi-national infant formula company.
- Locked in exchange rate until end FY2014 to stabilise raw material costs.
- Pressure on margins in a competitive environment.
- Operating expenditure remains well controlled.
- Evaluation and sales of new products slower than expected. Customer trials are proceeding with initial sales of 2 products expected in FY2014.
- Innovation program with CSIRO Australian Growth Partnership program terminated due to not meeting technical or commercial milestones.
- Increased inventory influenced by program to qualify and secure additional sources of raw materials which provide increased manufacturing margins.
- Board renewal – Mr Graeme Billings replaced Mr David Wills as a non-executive director.

# CONTINUED FOCUS ON GROWTH MARKETS & VALUE ADDED PRODUCTS



- Sales revenue increased with the strongest performance in Oceania.
- Oceania supports infant formula exports.
- Focus has been on infant formula, follow-on formula, growing-up-milks and special diets in super premium, premium and standard ranges of products.
- The expansion of sales in value added encapsulated ingredient systems.
- However in some mature infant formula markets there are restrictions to entry such as;
  - USA mainly uses patent protected algal oils.
  - Europe mainly uses oils rather than encapsulated powders and there are regulatory restrictions.

## Geographic sales by revenue

	FY2013	FY2012
Oceania	38%	26%
Asia	52%	64%
Europe	6%	6%
Americas	4%	4%

## Types of Product

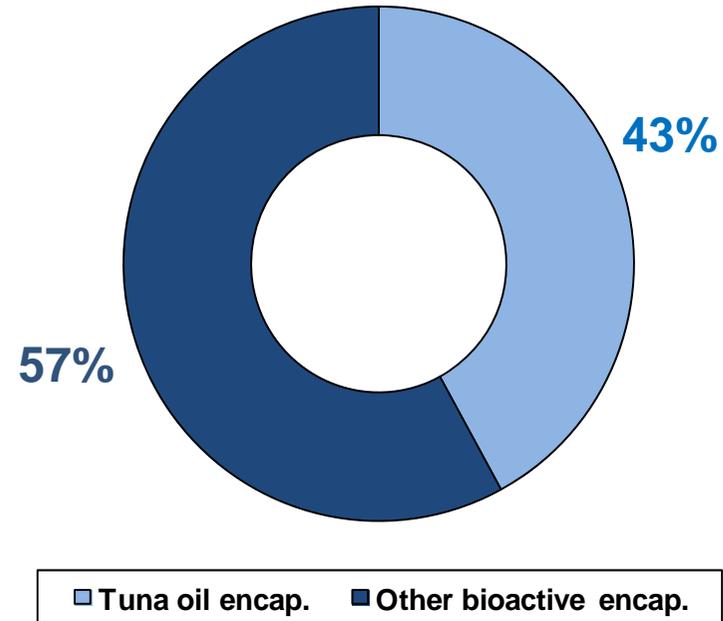
	FY2013	FY2012
Oil	3%	3%
Encapsulated Powders	97%	97%

# 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 improve the stability of important and sensitive nutritional materials and facilitate their use in many applications.
- Clover uses proprietary encapsulation technology that can allow;
  - high levels oil in the powder.
  - long shelf-life.
  - stability at ambient temperatures.
  - potential to deliver multiple bioactives.

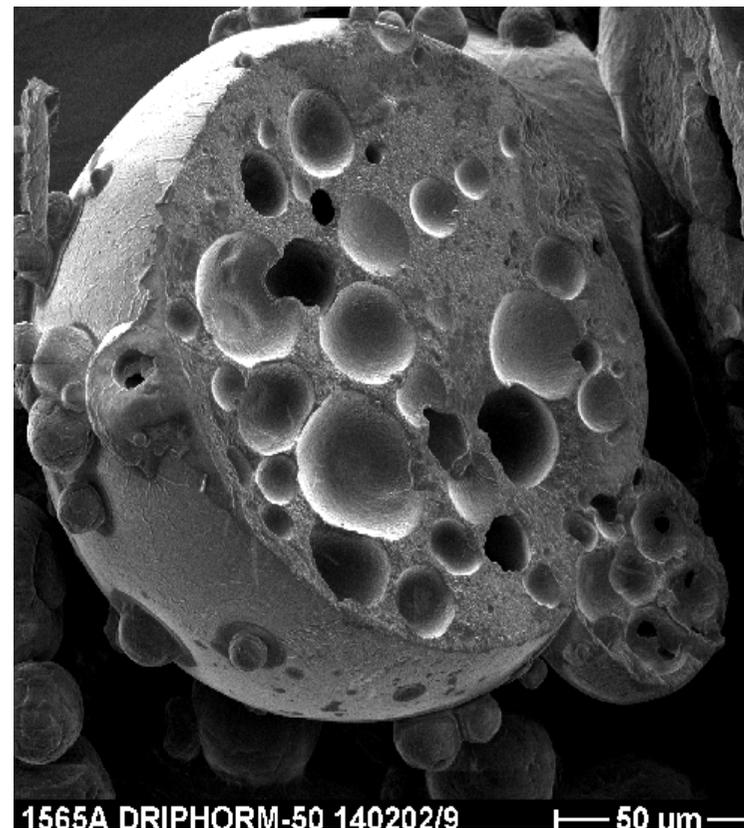
Sales Revenue based on Diversified Bioactives in FY2013



# COMPETITIVE STRENGTHS – A CULTURE OF COMMERCIAL INNOVATION



- **Clover’s core strengths;**
  - Focus on value added markets
  - Proprietary & patented technology
  - Commercial focus on innovation program
  - High quality differentiated 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



# INFANT FORMULA IN CHINA



- 2008 melamine contamination of infant formula in China resulted in improvements in safety standards and a significant increase in imported infant formula.
- China has identified infant formula as a matter of national importance and recently there have been reports about the activities of negative foreign infant formula companies in China concerning the:
  - Cost of infant formula.
  - Anti-competitive activity.
  - Inappropriate product representation.
- There are also reports that China is promoting the consolidation of domestic infant formula production to provide economies of scale and to improve quality.
- Chinese Government has announced it intends to relax the “One Child Policy”.
- Clover is addressing these market changes by providing ingredients to:
  - multinational infant formula manufacturers.
  - domestic Chinese infant formula manufacturers.
  - encapsulation enhancing agents to domestic Chinese manufacturers.

# PRIORITIES FOR CLOVER



- **Continued focus on the infant formula and children’s food market.**
  - Specialist delivery systems.
  - Targeted multiple bioactive delivery systems.
  - Improved bioactive protection and delivery.
  - Provision of improved value.
- **Focus 1: Focus on expanding the sales of existing products.**
  - Focus on Asia, Americas and Europe.
- **Focus 2: Commercialise the sales of new products**
  - Initial sales from new encapsulated product delayed by NZ incident – sales expected in second half FY2014.
  - Second a new encapsulation enhancing product is in manufacturing trials in China – sales expected in FY2014.
- **Focus 3: Develop medical food opportunities**

# THE PRETERM MEDICAL FOOD PROJECT



## 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:
  - Respiratory impairment .
  - Cognitive or mental impairment.
- Incidence of premature births#:
  - Preterm births globally approx. 14.9 million p.a. (11.1% of live births).
  - Preterm births less than 33 weeks approx. 1.6 million p.a. (total available market).
- Results of the initial clinical study reported in 2009 (657 infants):
  - Increased dose of DHA lipid provided infants from birth to normal 40 week gestation.
  - Reduced incidence of bronchopulmonary dysplasia (BPD) and asthma in boys and BPD in all children with birth weight less than 1.25 kilograms.\*
  - Improved cognitive development in girls at 18 months.
  - The results of the assessment of these children at 7 years will be available in early 2015.



# Blencowe et al., Lancet. 379: 2162 (2012)

\* Manley et al., Pediatrics. 128,1: e71-e77 (2011)

# PLAN FOR PRETERM INFANT FORMULATION

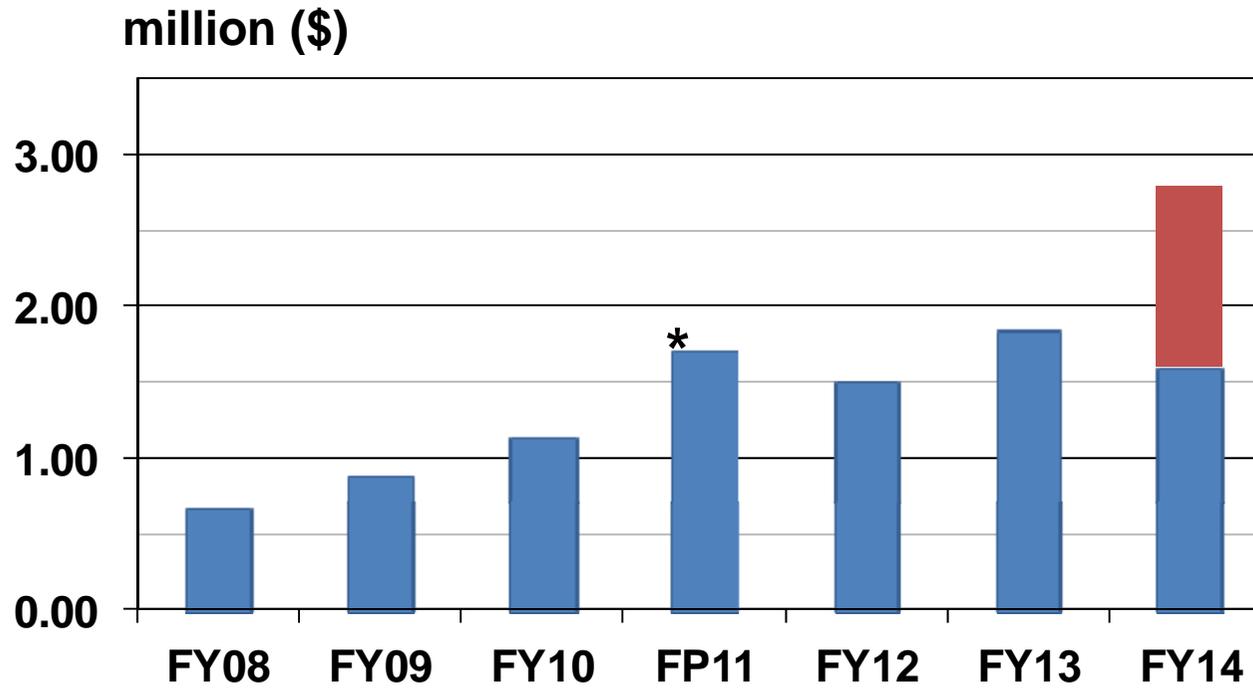


- **Clover has developed a specialty formulation for hospital use:**
  - Successful clinical trial to test high DHA emulsion & delivery system in 2011.
  - Licence agreements signed & patent applications filed.
    - US Patent for “Promoting respiratory development of an infant” granted (USP 8,563,611).
  - Finalised formulation and manufacturing requirements.
    - DHA emulsion + delivery being manufactured for the Phase 3 clinical trial.
- **Phase 3 international clinical study using the Clover product:**
  - Primary outcome to reduce the incidence of BPD in preterm infants.
  - NH&MRC funded study to Adelaide University & the Adelaide Women’s and Children’s Hospital.
  - Clinical trial (multiple sites in Australia, New Zealand & Singapore) involving approx. 1250 preterm infants.
  - Clinical trial to be completed by end 2014.
  - Results should be available by mid 2015.
- **Current status:**
  - Submission for FDA GRAS approval being prepared.
  - Initial target market +500, 000 children per year in four countries.
  - Market potential +\$100 million revenue per year.
  - Development of second generation product has commenced.
  - Finalising the business, investment, marketing & distribution plans.



# RESEARCH & DEVELOPMENT EXPENDITURE

(EXPENSED IN YEAR OF ACTIVITY)



R&D Expenditure

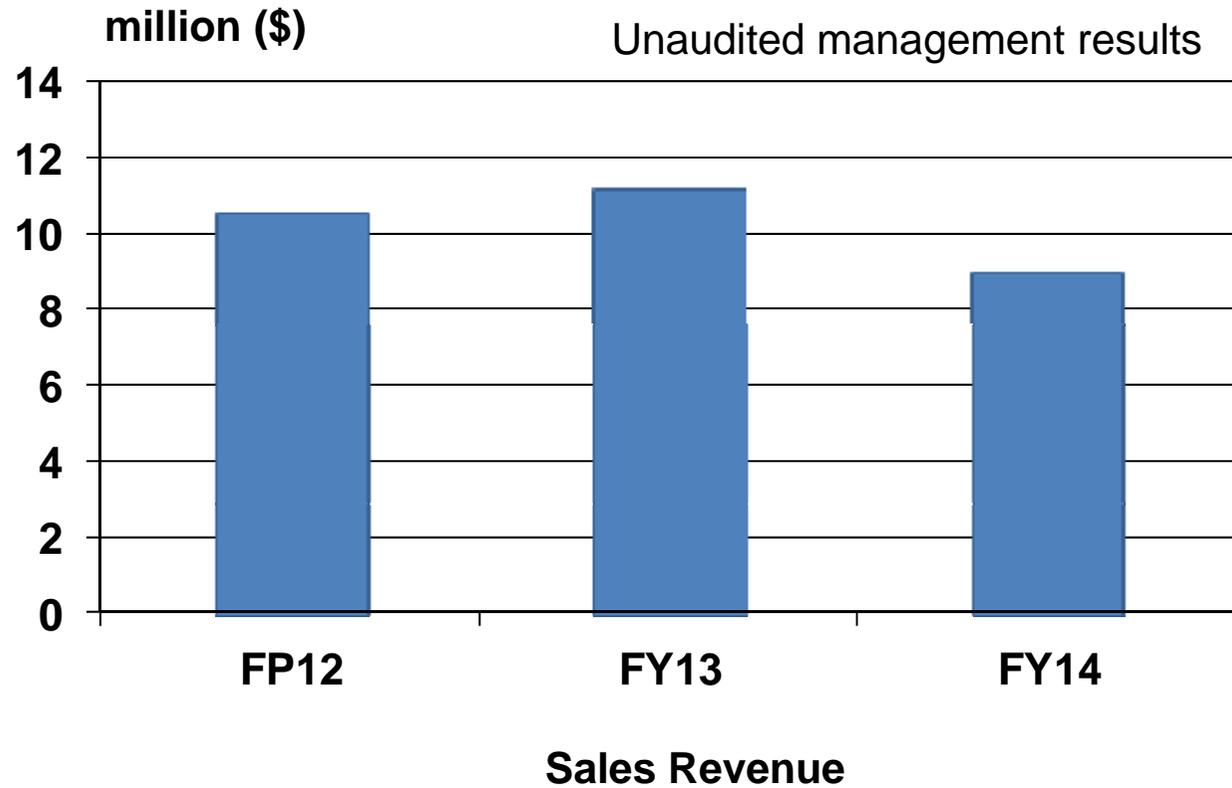
\* FP11 represents 13 months

Estimate for FY14 with additional R&D expenditure for Preterm medical food project.

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# SALES REVENUE DECLINE BY 19.9% IN THE FIRST 3 MONTHS OF FY2014



Sales revenue from August, September & October

## FY2014 OUTLOOK



- Estimate 20% - 30% decrease in sales revenue in FY2014 due to NZ “milk powder contamination” incident.
- Impact appears to be temporary with strong bounce back anticipated in FY2015 from existing customers.
- Managing the impact of temporary reduced sales on inventory, manufacturing, etc.,
- Continued pressure on gross margins but reduced value of AUD will help.
- Signed 5 year global supply agreement with a second multinational infant formula company.
- First sales of product based on the Canadian Novel food approval obtained in FY2012.
- Initial sales from new encapsulated product delayed by NZ incident – sales expected in second half FY2014.
- Second a new encapsulation enhancing product is in manufacturing trials in China – sales expected in FY2014.
- Focus on specialty applications for refined tuna oil.
- Phase 3 clinical study of proprietary preterm medical food progressing well.
- Balance sheet remains strong and there is liquidity to fund growth.
- Exploring strategic acquisitions that are accretive to Clover in relation to product range, market and sales opportunities.
- Announcement of new CEO/MD expected in the near future.



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

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# Thank you for attending

**Annual General Meeting**  
**29 November 2013**