



## Strategic pivot setting the course to move from strength to strength

Wellnex Life (ASX: WNX), formerly Wattle Health, is a Melbourne-based company focusing on the manufacturing and distribution of consumer-focused health and wellness products in Australia and overseas. Following recent acquisitions, WNX has expanded its brand portfolio to 20+ brands offering a diversified range of health and wellness products in the rapidly growing health and wellness sector. WNX, through its recent acquisition of Brand Solutions Australia (BSA), also earns recurring revenues by assisting third party companies with existing and new brands in the health and wellness space that face barriers to market penetration. WNX does this by leveraging on its existing top tier key retail and distribution expertise, skilled branding, infrastructure capabilities and sales support.

### The health & wellness market is growing rapidly

The Australian health and wellness industry is currently worth over \$10bn and 72% of sales occur through pharmacy channels. The industry is being driven by a rising elderly population in Australia, increasing consumer preference towards preventive health, and growing exports of complementary medicines in Australia. The company is set to capture the emerging market opportunity.

### Valuation range of A\$0.253-0.394 per share

We value WNX at A\$0.253 per share base case and A\$0.394 optimistic case using a DCF approach, broadly based on WNX's projections in accordance with the potential impact from various factors such as acquisition of BSA, exclusive distribution right for Performance Inspired products in Australia and plans of expansion through launch of products and brands. We believe WNX has significant scope for re-rating over the next few years, if it can meet its potential.

Year to Dec (A\$m)	2023F	2024F	2025F	2026F	2027F	2028F
Sales (m)	28.6	36.6	48.6	62.8	78.4	95.7
EBITDA (m)	1.2	3.4	5.9	9.1	12.8	18.3
Net Profit (m)	0.8	2.1	4.1	6.2	8.7	12.6
EBITDA margin (%)	4.1%	9.2%	12.2%	14.5%	16.3%	16.3%
RoA (%)	3.7%	10.6%	15.4%	18.5%	20.4%	23.4%
RoE (%)	1.3%	11.8%	18.6%	21.9%	23.7%	25.4%
Net Debt/Equity (%)	-49.5%	-51.9%	-60.1%	-70.2%	80.0%	0.0%
EPS	0.2c	0.6c	1.2c	1.9c	2.6c	3.8c

Estimates: Pitt Street Research

Share Price: A\$0.072

ASX: WNX

Sector: Consumer Discretionary & Staples

17 June 2022

Market Cap. (A\$ m)	21.8
# shares outstanding (m)	303.3
# shares fully diluted (m)	303.3
Market Cap Full. Dil. (A\$m)	21.8
Free Float	73.5%
12-months high/low (A\$)	0.170/0.076
Avg. daily volume since listing ('1000)	891.7
Website	wellnexlife.com.au

Source: Company, Pitt Street Research

### Share price (A\$) and avg. daily volume ('000s) (since listing) (k, r.h.s.)



Source: Thomson Reuters, Pitt Street Research

Valuation metrics	
DCF fair valuation range (A\$)	\$0.253-0.394
WACC	15.0%
Assumed terminal growth rate	2.0%

Source: Pitt Street Research

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## Financial Statement Projections (Base case)

Profit & Loss (A\$m)	2023f	2024f	2025f	2026f	2027f	2028f
Sales Revenue	28.6	36.6	48.6	62.8	78.4	95.7
Operating expenses (excluding D&A)	-27.4	-33.2	-42.7	-53.7	-65.7	-77.4
<b>Profit before tax (before exceptionals)</b>	<b>0.3</b>	<b>3.0</b>	<b>5.8</b>	<b>8.8</b>	<b>12.5</b>	<b>17.9</b>
Tax expense	-0.1	-0.9	-1.8	-2.6	-3.7	-5.4
<b>NPAT</b>	<b>0.2</b>	<b>2.1</b>	<b>4.1</b>	<b>6.2</b>	<b>8.7</b>	<b>12.6</b>

Cash Flow (A\$m)	2023f	2024f	2025f	2026f	2027f	2028f
Profit after tax	0.2	2.1	4.1	6.2	8.7	12.6
Depreciation	0.1	0.1	0.1	0.1	0.1	0.2
Change in trade and other receivables	-0.5	-0.6	-0.9	-0.9	-0.9	-0.8
Change in other current assets	-0.3	-0.2	-0.7	-0.5	-0.5	-0.5
Change in trade payables	0.0	0.0	0.0	0.0	0.0	0.0
Other operating activities	-0.1	0.0	-0.3	0.1	0.0	-0.6
<b>Operating cashflow</b>	<b>-0.6</b>	<b>1.4</b>	<b>2.3</b>	<b>5.0</b>	<b>7.4</b>	<b>10.8</b>
Capex (- asset sales)	-0.6	-0.6	-0.8	-1.1	-0.9	-1.1
Other investing activities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Investing cashflow</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.8</b>	<b>-1.1</b>	<b>-0.9</b>	<b>-1.1</b>
Equity raised (repurchased)	7.4	0.0	0.0	0.0	0.0	0.0
Debt drawdown (repaid)	6.1	3.0	2.0	0.0	0.0	2.0
Other financing activities	-12.2	-6.1	0.0	0.0	0.0	-4.0
<b>Financing cashflow</b>	<b>1.3</b>	<b>-3.0</b>	<b>2.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-2.0</b>
Net change in cash	0.1	-2.2	3.5	3.9	6.5	7.7
Cash at End Period	10.0	7.8	11.3	15.2	21.7	29.5
Net Cash (Debt)	7.0	7.8	9.3	13.2	19.7	29.5

Balance Sheet (A\$m)	2023f	2024f	2025f	2026f	2027f	2028f
Cash	10.0	7.8	11.3	15.2	21.7	29.5
Total Assets	20.6	19.9	26.6	33.3	42.5	53.6
Total Debt	3.0	0.0	2.0	2.0	2.0	0.0
Total Liabilities	4.9	2.0	4.7	5.1	5.7	4.2
Shareholders' Funds	15.8	17.9	22.0	28.1	36.8	49.4

Ratios (A\$m)	2023f	2024f	2025f	2026f	2027f	2028f
Net Debt/Equity (%)	-44.3%	-43.6%	-42.2%	-46.9%	-53.6%	-59.7%
Interest Cover (x)	-0.07x	-0.25x	-9.86x	-0.62x	-0.76x	-0.91x
Return on Equity (%)	1.3%	11.8%	18.6%	21.9%	23.7%	25.4%

Estimates: Pitt Street Research



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*WNX aims to be the most innovative Australian brand and distribution company focused on the consumer health and wellness market.*

## Introducing Wellnex Life

Wellnex Life (ASX: WNX), formerly Wattle Health (WHA), is a Melbourne-based brand and distribution company, of customer-focused health and wellness products, and is uniquely positioned as a product innovator with a well-established distribution infrastructure. The company has a fully integrated business, which it plans to expand in Australia and Asia-Pacific through new brands and product innovations. Added to this are its key service offerings which include distribution, infrastructure and key supplier relationships, experienced marketing and sales teams, manufacturing capability to meet demand, and branding ability to enhance/recall brand recognition.

## Wellnex Life: Birth of a new business

The business model of the previously named Wattle Health Australia was focused on establishing a vertically integrated infant formula business with a strong focus on export sales to China. The business was hit by a combination of negative factors such as the impact of COVID-19 on the global and Australian economy, shifting trade relationships between Australia and China, a significant decline in the previously buoyant Daigou market, and competition-led stress on margins in the Infant formula category. The company decided to leverage and build on its existing capabilities, and one of the efforts undertaken was a strategic review to identify acquisition targets to strengthen the brand and distribution capabilities of the company in the health and wellness market. Wellnex Life acquired Brand Solutions Australia (BSA) in July 2021, which added specializations of efficient manufacturing, speed to market and R&D capabilities for new product development.

The company's renewed brand positioning led to its rebranding to Wellnex Life Limited, where the acquisition of BSA helped to increase the portfolio of two brands to 20+ brands offering a diversified range of products in the health and wellness space. Additional benefits included strong existing relationships with major Pharmacy and Grocery retail and supplier partners and a national Pharmacy field team.

## Wellnex Life's Future drivers of growth

### GlaxoSmithKline

Following a long period of due diligence by the global pharmaceutical giant, WNX recently announced a three-year supply agreement with GlaxoSmithKline Consumer Healthcare, to supply Glaxo's unique soft gel analgesic for distribution in Australia and New Zealand. There is scope under this agreement for potential expansion of territories and product offerings.

### Chemist Warehouse and Wagner Liquegics

WNX has existing products on the market, sold through notable distribution channels, such as through the Big Six health and wellness retailers. Most notably, the company has a JV with Chemist Warehouse to stock its Wagner Liquegics range under an exclusive supply deal unveiled in July aided by a significant national advertising campaign launched by Chemist Warehouse.

### Pharmacy Own Brand

The company's planned brand launches in the immediate future are also important growth drivers. The company will launch its Pharmacy Own brand in 1HY23. It has already secured distribution through CH2, Australia's only fully integrated pharmaceutical and medical consumable distributor. This agreement will provide access to over 2,500 pharmacies.

*WNX has existing products on the market, sold through notable distribution channels. Planned brand launches in the immediate future are also important growth drivers.*



### Australian Dairy Nutritionals

Wellnex has formed a Joint Venture with Australian Dairy Nutritionals (ASX: AHF) to launch the first locally sourced, premium quality A2 infant formula range in Australia under the brand name Ocean Road Dairies. First commercial production is scheduled for June 2022 with ranging in Chemist Warehouse stores targeted for 2HCY22.

### Mark Wahlberg’s Performance Inspired Brand

Another important future growth driver for Wellnex is the Performance Inspired relationship. WNX entered into a licence agreement with Performance Inspired’s owner, the American actor Mark Wahlberg, in October 2021 for distribution of products in Australia and New Zealand. Performance Inspired is a leading nutrition and supplement brand in the US that has more than 58 health and wellness nutritional products, catering to lifestyle consumers and professional athletes. The deal gives WNX exclusive distribution rights in Australia and New Zealand for Performance Inspired products, as well as first rights to expand distribution to Asia. The first launch is expected in 1H23.

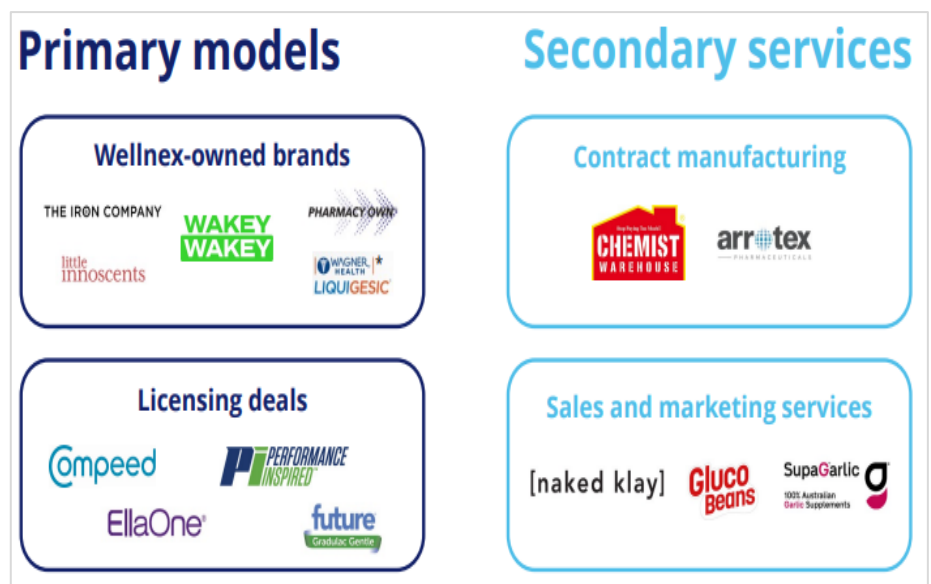
The COVID-19 pandemic has resulted in consumers becoming more health-conscious, leading to increased awareness of various health and wellness products, in particular the immunity segment of the market. Wellnex plans to gain significant market share in the A\$10bn health and wellness industry in Australia and increase its reach further globally by leveraging its competency of being first to market or fast to market.

Its strategy for future revenue growth is fourfold:

- Increase the brand portfolio through acquisition and future new product development
- Build on the established and growing revenue base
- Capture a wider market through increased distribution channels, including the launch of an e-commerce platform
- Focus on capital efficiency to provide agility to business model as opportunities arise

*The COVID-19 pandemic has resulted in consumers becoming more health-conscious, leading to increased awareness of health and wellness products.*

Figure 1: Key Brands offered by Wellnex Life



Source: Investor Presentation – March 2022, Investor Centre, Company website





*The health and wellness industry offers significant growth opportunities.*

*WNX has a strong partnership with the Big Six health and wellness retailers.*

## **Key reasons to look at WNX**

### **A lucrative target market worth over A\$10b**

The health and wellness industry offers significant growth opportunities, driven by Australia's aging population, increasing consumer preference towards preventive health, and growing exports of complementary medicines in Australia.

### **A strong financial position**

WNX has strengthened its balance sheet, following the completion of a rights issue to convert its existing short-term loan liabilities to equity and sale of its unprofitable business Corio Bay Dairy Group (CBDG), with the company completing a raise of \$6.2m through a convertible notes issue.

### **A network of established retailers and distributors**

WNX has a strong partnership with the Big Six health and wellness retailers, namely Chemist Warehouse, API, Sigma Pharmaceuticals, Priceline, Woolworths and Coles, to distribute its selected brands and products, and further plans to launch an e-commerce platform in 2022 to help drive the growth of WNX brands.

### **Pursuing an inorganic route to further accelerate growth**

WNX is enhancing its brand portfolio by pursuing both acquisitions and future product developments. It has already acquired BSA to expand its portfolio to more than 20 brands, and has launched three new brands – Wakey Wakey, The Iron Company and Pharmacy Own – with ranging secured in major pharmaceutical and grocery retailers.

### **Partnerships with leading brands**

WNX is entering into strategic partnerships and tie-ups in the form of joint ventures (JVs) and licensing agreements with brand manufacturers and retailers for contract manufacturing, distribution and sales of health and wellness products. It already has agreements with well-known names, including the likes of Performance Inspired and GlaxoSmithKline.

### **An expanded market presence horizon**

WNX is expanding its market presence. The company has taken full control of previously owned brand Little Innoscents, and has formed a joint venture with Australian Dairy Nutritionals (ASX: AHF) to launch Ocean Road Dairies - Australia's first Organic A2 infant formula range. It will be ranged in Chemist Warehouse in August this year before expanding in international markets. It is also set to launch its own unique health and wellness focused e-commerce platform.

### **Experienced management team**

WNX has a strong leadership team, led by George Karafotias, Chief Executive Officer (CEO), who has extensive experience of more than 20 years in predominantly senior executive roles. Zack Bozinovski, as Managing Director, has over 35 years of experience within fast-moving consumer goods (FMCG) and pharmaceutical companies in Australia and New Zealand.



*WNX has repositioned from its milk business into the health and wellness industry.*

### Big upside potential

We believe WNX is undervalued, and we value the company at \$0.253 per share in the base case and \$0.394 per share in the optimistic case, using a discounted cash flow (DCF) approach.

### Emerging as a newborn brand and expanded vision

Wellnex Life relisted on the ASX in July 2021 with a new plan to offer innovative and sustainable Australian health and wellness brands and products worldwide. As part of the new strategy, the company changed its name from Wattle Health to Wellnex Life, to reposition from the milk business into the health and wellness industry, positioning itself in a large addressable market.

The newly formed Wellnex Life focusses on increasing the brand portfolio through acquisition and new product development and aims to capturing a wider market through increased distribution channels.

This company’s new vision includes a strategy of being first or fast to market with products that are differentiated that have significant consumer demand, and meaningful support from major retailers such as Chemist Warehouse. It also focusses on capital efficiency that allows new distribution opportunities to be taken up quickly (Figure 2).

Figure 2: Wellnex Life’s new business model



Source: WNX Investor Presentation – July 2021

### Coming out of the deep hole

WHA’s original vision was to become a leader in the organic nutritional dairy products sector within the Chinese market. China was rapidly becoming one of the world’s largest consumers of dairy products, given its growing population, aided by the abolition of the one-child policy, and local distrust for domestic brands following a mass contamination event in 2008. Chinese consumers placed particularly high value on the quality of products from Australia and New Zealand. WHA had created a variety of dairy products with

*WHA’s original vision was to become a leader in the organic nutritional dairy products sector within the Chinese market*



a strong supply chain that allowed the company to control each stage of the process.

To gain market share in the extensive and growing Chinese market, the company had worked directly via the Daigou channel. Daigou is a consumer-to-consumer network based on exporting luxury and household goods from abroad into China. Originally a grey channel navigated mainly by international Chinese students sending friends and family members luxury items back home, Daigou had since progressed into a global community and industry consisting of anything from German knives to Australian baby foods.

The business encountered obstacles when COVID-19 hit and the deterioration of the Australian – Chinese relationship, which resulted in China’s leadership blacklisting Australian products. During this time, WHA faced challenges in attempting to raise funds to pursue potentially major corporate transactions.

WHA didn’t survive this change. The company’s stock was suspended from September 2019 while it tried to sort out a funding package to buy a dairy processing and packing business, called Blend and Pack, but it walked away from that transaction in April 2020. Then, in August 2020, the Corio Bay Dairy Group, a would-be maker of organic milk powder, went into administration, having spent A\$44m of WHA’s money.

However, the company took this opportunity to redesign the business. By July 2020, it had commenced a strategic review of not only its business, but of the whole market and how COVID-19 could reshape its customers’ and competitors’ behaviour. The outcome of the review showed the need for diversification away from manufacturing a narrow range of products for a specific consumer. It also showed that the company needed to go into the health and wellness market – a market where the company had not only built relationships and networks, but also understood its competitors. More importantly, it was a market where consumers would become more willing to spend in a post-Covid world.

The company already had the know-how to take advantage of it, and just needed to find a way to diversify its own offering with an array of products. After careful consideration, the management decided to acquire BSA, a company specialising in products within the health and wellness space.

## **Acquiring Brand Solutions Australia to reposition in the market**

BSA is a sales and marketing consultancy business to health and wellness brands. With over 25 years retail experience in the Australian and New Zealand Pharmacy and Grocery channels, BSA’s founder Zack Bozinovski defined a clear gap in the brokerage market in 2010 and filled it with a boutique brokerage. Since then, BSA has been servicing and working with strategic partners globally and domestically in both the Pharmacy and Grocery channels.

BSA managed a portfolio of over 15 strategic brands in the health and wellness sector, which provided a diversified range of product offerings for WNX (Figure 3). BSA had strong retail customer relationships across pharmacy and grocery in Australia and globally. BSA also provided access to more efficient manufacturing and speed to market, along with significant research and development capabilities for new product development.

*WNX’s objective behind the acquisition of BSA is to expand the brand portfolio, promote innovation and build sustainable Australian brands with global appeal*





Figure 3: Key Brands under Wattle Health and BSA umbrella



Source: Investor Presentation – April 2021, Investor Centre, Company website

WNX acquired BSA for A\$5.3m in July 2021. As part of the consideration, WNX paid A\$2.75m in cash upfront, A\$0.5m cash to repay existing debt and A\$2m through issue of 13.3m shares to BSA. Additionally, there was to be a deferred earn-out consideration component which was to be payable progressively upon achievement of prescribed business performance targets.

BSA had been associated with WNX for a period of time, as WNX’s sales and marketing agent. BSA was also instrumental in getting WNX’s Uganic infant formula and Little Innoscents ranged in both Chemist Warehouse and Australian Pharmaceutical Industries (API) stores.

Through this acquisition, WNX has the potential to become a leading health and wellness brand company with an extensive portfolio, providing the company with annualised revenues of more than A\$20m (Figure 4).

Figure 4: Combined revenue of WNX and BSA



Source: Investor Presentation – March 2022, Investor Centre, Company website



### The health and wellness industry is growing & provides significant opportunities

*The Australian health and wellness industry is currently worth approximately \$10bn*

The health and wellness industry primarily includes companies producing complementary medicines - consumable products containing ingredients intended to supplement the diet and over-the-counter (OTC) medications used to prevent or treat illnesses.

There are various estimates that exist for the size of the market in Australia and abroad. Complementary Medicines Australia (CMA), estimates the Australian health and wellness industry is \$5.7bn. Within the industry, CMA estimated the vitamin and dietary supplements segment and the sports nutrition segment represent 55.5% and 23.2% respectively of the industry's total revenue. However, data from healthcare analytics company IQVIA, suggests the Australian health and wellness industry is worth ~\$10bn based on monthly sales volumes - \$0.91bn in 2020 and 2021.

Figure 5: Total consumer health retail 4 weekly scan value sales (\$m) by channel



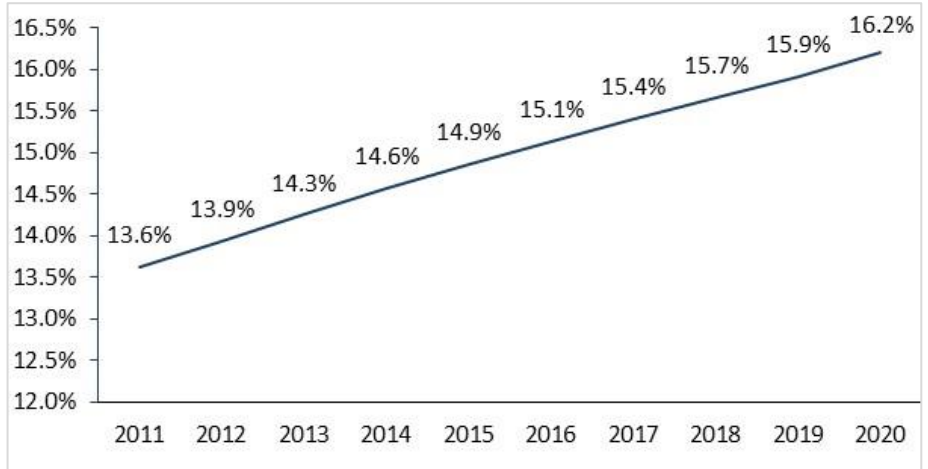
Source: IQVIA Pharmacy Scan

### The ageing population is leading to increased focus on health and wellness

The number of adults aged 65+ years has been increasing, and the trend is expected to continue in the coming years (Figure 6). Usage of health supplements has become one of the most popular options among this elderly population, as they invariably suffer from deficiency-related diseases that can be countered by using functional food ingredients. Vitamin manufacturers have thus been introducing a variety of new products targeted at this age group, including multivitamins that contain anti-aging antioxidants, supplements that target heart and digestive health and other condition-specific products catering to older consumers.



Figure 6: Elderly population at 65 or above (% of total population)



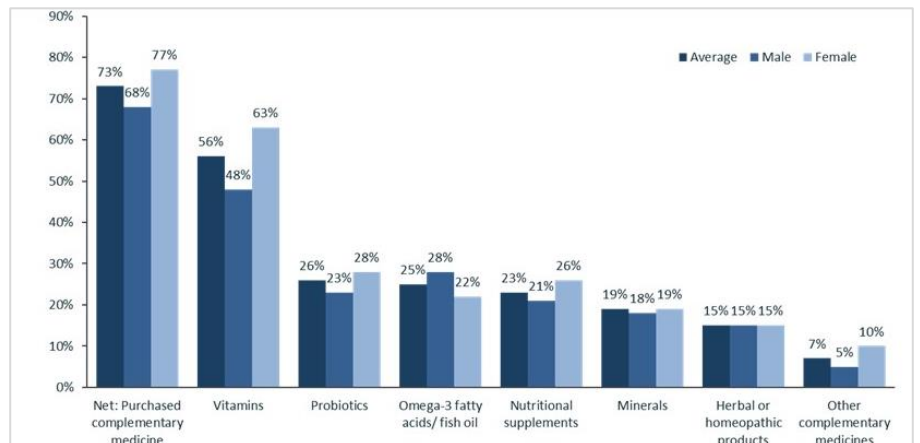
Source: 'Population ages 65 and above (% of total population)', data.worldbank.org

### Increasing consumer preference towards preventive health is further driving growth

In recent years, people have become more invested in healthier lifestyles, with the pandemic accelerating demand for healthcare products. Beyond the pandemic, broader trends such as increasing demand for eco-friendly organic food products and a greater awareness of well-being have supported the industry's growth. Furthermore, rising pharmaceutical drug prices, increased media coverage of health and wellness trends and an increase in research on diet-related illnesses have encouraged consumers of all ages to turn to dietary supplements. As a result, 7 out of 10 people have used at least one form of complementary medicine in the past 12 months (Figure 7).

**7 out of 10 people have used at least one form of complementary medicine in the past 12 months**

Figure 7: Purchases of complementary medicines in the past 12 months



Source: 'CMA industry audit & trends 2021', CMA website

### Growing exports of complementary medicines has further fuelled the industry's growth

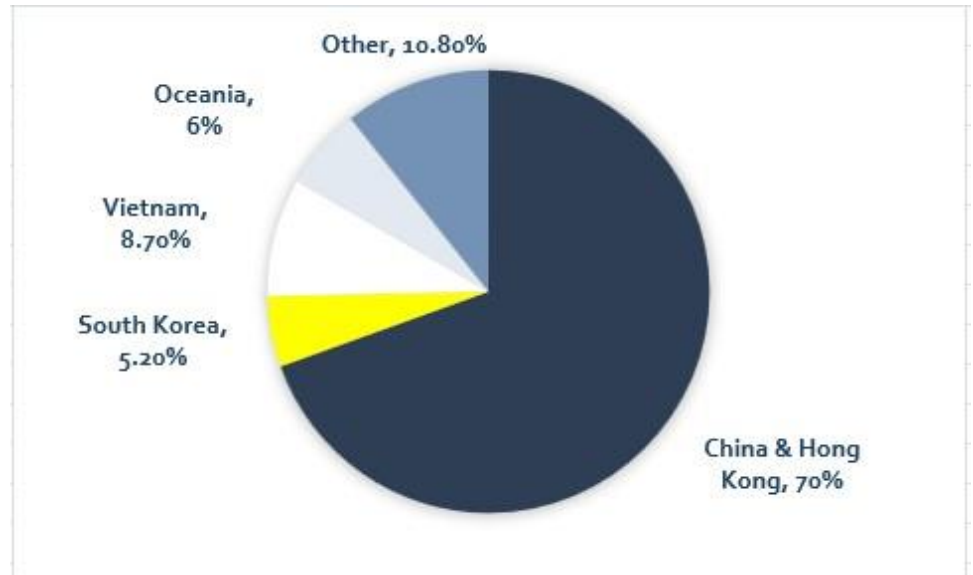
As consumer demand for complementary medicines increased worldwide, Australia has exported over A\$1 billion worth of complementary medicines in 2021. China and Hong Kong accounted for the majority of these exports, contributing ~70% of the total exports, followed by Vietnam and Oceania (Figure 8). Asia, being the fastest-growing region of the world, with a growing

**Australia exported A\$1.1bn worth of complementary medicines in 2020, an increase of 15% compared with the previous year**



middle class and ageing population, is expected to continue to account for growth in the export market. Future target markets in Asia include Singapore, Malaysia, Cambodia, Thailand and India.

Figure 8: Australian complementary medicine exports by geography in 2021



Source: 'CMA industry and audit trends 2021', CMA website

The health and wellness industry is still a young and fast-growing market niche, and retailers are always in search of exciting products to bring to consumers. However, getting these products to retailers at a high standard and in large enough volumes could become a significant barrier to entry for many new players. To succeed in this market, a company would need an experienced sales and marketing team, as well as relationships with distributors to get products on shelves. With BSA now on board, Wellnex Life believes that it has all these capabilities and the network of relationships needed to execute the strategy.

## Growth through expansion and diversification

WNX's growth strategy is to increase its brand portfolio by pursuing both acquisitions and future product developments, increasing partnerships and expanding into new channels of sales.

### Reaping benefits from legacy brands

During WHA's worst phase in 2020, it had to let go of the majority of its product portfolio to reposition in the market with a new vision. However, it still kept its 2 legacy brands – Uganic and Little Innocents. Consumers seemed to like these brands, and these brands had good distribution reach via Chemist Warehouse.

**Uganic**, launched by WHA in September 2019, offers a certified organic, traceable and highly nutritious range of dairy products. The company under this brand had planned to launch an Australian certified organic nutritional dairy range, and the first commercial quantity of organic A2 protein dairy products was planned to be available in Q4 2020. The brand had received positive reviews from the consumers at the trade shows and from direct sales and is expected to sustain significant position in Australia's organic milk market.



**Little Innoscents Pty Ltd**, founded in 2007, produces and sells organic baby skincare products, essential oils, aromatherapy, and domestic cleaning products. The majority of the company (80%) was acquired by WNX in February 2018, while the remaining 20% was acquired in February 2021. Today, Little Innoscents is stocked in over 800 stores nationwide, including Chemist Warehouse, Good Price, Super Pharmacy and Cincotta. Its products are also available through a wide network of boutique baby stores, natural health and wellbeing outlets, and online suppliers with a focus on organic and sustainable products. Little Innoscents exports internationally and is available in New Zealand, Malaysia, Singapore, Hong Kong, Taiwan, and Vietnam.

WHA signed a 10-year supply agreement with Chemist Warehouse in 2019 to sell the company's fully certified organic nutritional dairy range, comprising nine product stock-keeping units (SKUs) of the premium range of Uganic infant formula and the Little Innoscents organic skin care range. As per the agreement, all the product ranges of these brands would be sold in more than 500 Chemist Warehouse retail stores in Australia, New Zealand and China.

### Increase the brand portfolio by pursuing acquisitions and future product developments

As part of its overall growth strategy, WNX plans to focus on acquiring new brands as well as expanding the product offerings under its existing brands. It has already acquired BSA to expand its portfolio to more than 20 products. WNX has already launched two new brands – Wakey Wakey and The Iron Company and plans to launch Pharmacy Own later this year.

**The Iron Company** provides iron supplements for consumers in Australia and globally. Currently, it offers iron gummies, in two flavours, that contain an encapsulated high-quality iron, ferrous sulphate, for relief from tiredness and fatigue.

**Wakey Wakey** provides energy supplements that increase energy, concentration, focus and alertness for consumers. These supplements include a blend of Vitamins B that work in harmony to reduce tiredness and fatigue, stimulate mental awareness and increase energy levels, and Vitamin C that assists with the growth, development and repair of all body tissues. Currently, Wakey Wakey offers two product ranges, including caffeine gummies containing Vitamins B3, B6, B12 and C, and Caffeine Effervescent containing Vitamins B1 and B3.

**Pharmacy Own:** Through the launch of the 'Pharmacy Own' brand in 2020, the company seeks to provide pharmacy products with efficacy comparable to established brands at competitive prices. While WNX will develop, manufacture, market and distribute the products in the pharmacy channel, it has an exclusive distribution agreement in place with Clifford Hallam Healthcare (CH2) to provide it access to over 2,500 pharmacies. The company plans to launch 20 core products in the first year (starting from 2022) and expand the portfolio to more than 50 products covering key segments, including cough and cold, pain relief, hay fever and vitamins.

**Medicinal Cannabis:** Although the company has not yet launched its own brand, it hopes to eventually bring a medicinal cannabis product to market. This market is expected to reach \$2bn by 2025 and this has been made possible through the TGA's move in 2020 to allow medicinal cannabis products to be sold as over the counter medicines. However companies still need to obtain approval for individual products and conduct their own clinical trials. WNX intends to have a product in the market by the end of 2023, subject to obtaining all necessary approvals.

*With the acquisition of BSA, WNX has expanded its portfolio from 2 brands to more than 15 brands*





In the coming years, WNX is planning to diversify its the portfolio in healthcare and wellness categories (Figure 9). Wellnex Life is also looking to expand its product offerings of its current brand portfolio.

Figure 9: Key categories of focus



Source: Investor Presentation – July 2021, Investor Centre, Company website

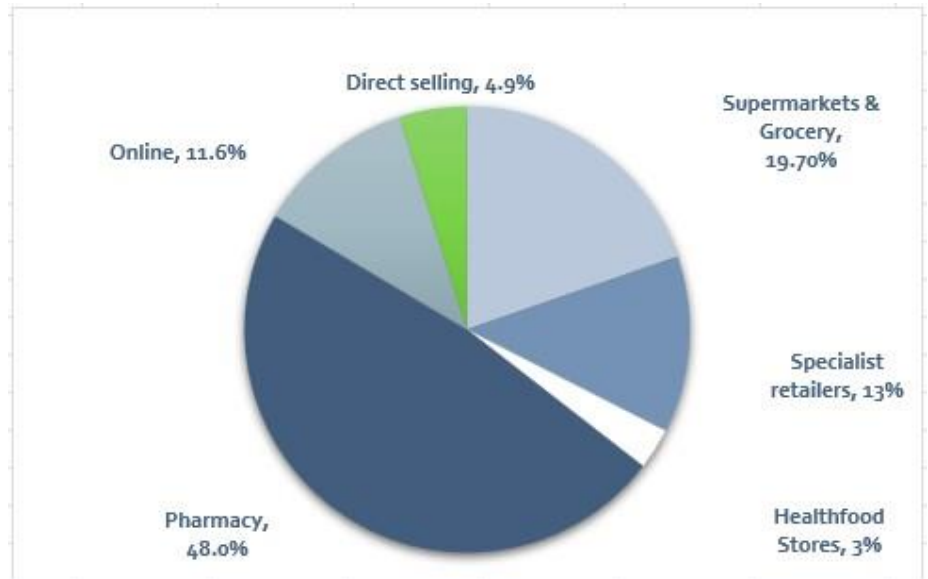
## Leveraging a multi-channel distribution network to expedite distribution

***WNX plans to expand its distribution network through all channels, with key focus on the supermarkets and retailers***

The retail distribution of health and wellness products has predominantly been done through pharmaceutical stores that provide consumers with healthcare advice in addition to the purchased products (Figure 10). However, a significant amount of retail distribution is also done through other channels, including grocery and specialist retailers. Additionally, the COVID-19 pandemic has also caused growth in internet retailing, leading to the online expansion of discount pharmacies. WNX plans to expand its distribution network through all channels, with key focus on the supermarkets and retailers.



Figure 10: Retail distribution of health and wellness industry



Source: 'CMA industry audit & trends 2021', CMA website

WNX is already leveraging multi-channel distribution for providing the consumers access to its products. The company has a strong partnership with the Big Six health and wellness retailers, namely Chemist Warehouse, API, Sigma Pharmaceuticals, Priceline, Woolworths, and Coles, to distribute its selected brands and products (Figure 11).

Figure 11: WNX's current retail partnerships



Source: Investor Presentation – March 2022, Investor Centre, Company website

The company also plans to launch an e-commerce platform in September 2022 to help drive growth of WNX brands and effectively navigate through the inflationary macro-environment. The platform, which Wellnex Life will fully own, will allow the company to boost its sales and achieve margins of ~70% (almost double of that achieved through a traditional channel). It will also enable Wellnex Life to market its products directly to consumers and provide some flexibility in determining prices.



*WNX plans to enter into further strategic partnerships and tie-ups.*

*Existing alliances include with Mark Wahlberg for Performance Inspired and with Chemist Warehouse for its Wagner Liquigesic range.*

*Wellnex Life formed a JV with Australian Dairy Nutritionals (ASX:AHF) to launch the first locally sourced, premium quality A2 infant formula range in Australia.*

## New partnerships to expand growth

As part of its overall growth strategy, WNX plans to enter into strategic partnerships and tie-ups in the form of JVs and licensing agreements with brand manufacturers and retailers for contract manufacturing, distribution and sales of health and wellness products.

**Wagner Liquigesic:** WNX entered into a 10-year JV with Chemist Warehouse to launch a new brand, “Wagner Liquigesic”, in Australia in July 2021. Under the terms of the JV, WNX is to be responsible for the development, registration and commercialisation of products, and Chemist Warehouse is to be responsible for driving the distribution and marketing. The JV has already launched its first product out of the four products planned, a Paracetamol liquid soft gel range. The range will include gel capsules, an oral dose of a drug in the form of a specialised capsule consisting of a gelatine-based shell surrounding a liquid fill containing the active ingredient. The smooth texture of these gels makes them easier to be swallowed in contrast to traditional capsules and tablets and could become a preferred alternative for individuals looking for regular pain relief. WNX has already received advanced purchase orders of c. A\$1m for these liquid gels.

**Performance Inspired:** WNX entered into a licence agreement with Mark Wahlberg in October 2021 for distribution of products of Performance Inspired brand in Australia. Performance Inspired is a leading nutrition and supplement brand in the US that has more than 58 health and wellness nutritional products and caters to lifestyle consumers and professional athletes. The deal gives WNX exclusive distribution rights in Australia and New Zealand for Performance Inspired products, as well as first rights to expand distribution to Asia.

**Ocean Road Dairies:** Wellnex Life formed a JV with Australian Dairy Nutritionals (ASX:AHF) to launch the first locally sourced, premium quality A2 infant formula range in Australia. The formula range will be marketed under the brand name ‘Ocean Road Dairies’, as the milk is sourced from AHF’s farms in the Great Ocean Road region in Victoria, Australia. The JV has secured Chemist Warehouse, the largest retailer of infant formula in Australia, as the national distributor for the product. As per the agreement, AHF will manufacture the range of infant formula, while WNX will distribute it in Australia through its existing distribution network. Sales of the core products are expected to commence from July 2022 onwards, while the distribution of the ‘future’ Gradulac Gentle infant formula range by Chemist Warehouse and Symbion (a network of 3,000 pharmacies) will begin by the end of FY 2022. The brand is expected to replace the Uganic brand of WNX in the market.

**GlaxoSmithKline Consumer Healthcare’s pain relief brand:** Wellnex Life forged a three-year supply partnership with GSK CT, a subsidiary of GlaxoSmithKline Consumer Healthcare, for its soft gel liquid paracetamol to retail it in Australia and New Zealand under GSK CT’s pain relief brand. The agreement comes after a 12-month due diligence process conducted by GSK CT with BSA, which is a testament to the operational capabilities of the company and underpins the potential to negotiate other such agreements with established pharmaceutical brands.

## Improved balance sheet

WNX has made several changes to its capital structure to improve the strength of its balance sheet. The company has, following the end of the June 2021 financial year, converted c. A\$7.05m of its short-term loan liabilities, including shareholder loans of c. A\$5.6m and convertible loans of A\$1.45m,



to equity. Additionally, the company completed a rights issue raising A\$1.3m in June 2021, thereby restoring a strong working capital position. It also refinanced its unconverted note of A\$2.0m to a convertible note of A\$2.4m (with a conversion price of A\$0.20 per share) in September 2021 and restored a net asset surplus of A\$8.6m at the end of 1H22.

In early June 2022, WNX raised \$6.2m via a Secured Convertible Note Facility, in a deal priced at a 110% premium to its 1 June 2022 closing price. The funds raised from this issue will be earmarked to finance the launch of the e-commerce platform for health and wellness products and expedite the entry into the high-margin S3 designated over-the-counter medicinal cannabis products market.

### **Sale of assets of CBDG resulting in strengthening of balance sheet**

In May 2018, WHA had launched a JV – CBDG, with Blend and Pack Pty Ltd (B&P) and Organic Dairy Farmers of Australia (ODFA) with plans to build a milk spray dryer in Geelong. WNX had a 45% interest in the JV, while ODFA and B&P had 50% and 5% interest, respectively. This JV would have enabled WHA to produce nutritional dairy products using organic milk sourced from the ODFA, with the aim of selling to the then-booming Chinese Daigou market and, in the long term, the general trade market in China. However, the onset of the COVID-19 pandemic (and its associated lockdowns) drove a sharp contraction in the Daigou market.

As a result, CBDG was placed into administration, which resulted in WHA suffering huge losses. David Mutton from RSM Corporate was appointed administrator of CBDG and, subsequent to his appointment, conducted an extensive campaign to maximise the return to the company. The assets of CBDG were finally sold to Maeil Dairy for A\$13.5m, and WHA was paid an initial dividend of A\$11m from the proceeds of the sale and an additional dividend at the conclusion of the administration process. The inflow of this capital strengthened the company's balance sheet and provided the company with an additional cash balance that can be used for future acquisitions.

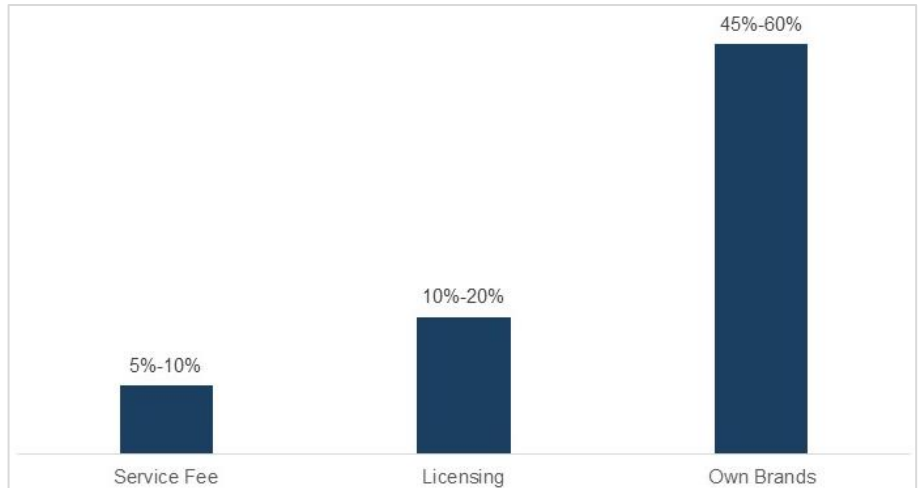


*One of the key pillars of the company's strategy is to create and develop its own brands.*

### Focus on improving margins

One of the key pillars of the company's strategy is to create and develop its own brands. WNX's own brands will promote topline growth and enable it to deliver considerably higher margins, 3-4.5x of the licensing model and 6-9x of the service fee model (used pre-2018) (Figure 12).

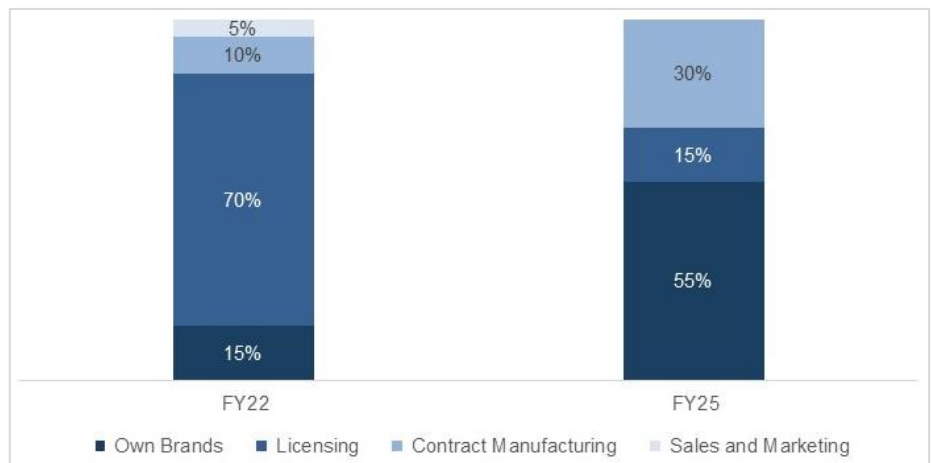
**Figure 12: Target margins by business model**



Source: WNX Investor Presentation – March 2022, Investor Centre, Company website

Consequently, the company plans to increase the contribution to revenue from own brands to 55% by FY25 from the estimated 15% in FY22 (Figure 13).

**Figure 13: Revenue Stream – FY22 (Estimated) versus FY25 (Projected)**



Source: Investor Presentation – March 2022, Investor Centre, Company website

Additionally, the launch of an e-commerce platform would also serve the purpose of retaining a bigger share of the revenue, effectively increasing its margins to ~70% (as compared to 35-40% from a traditional retail channel).





## Valuation

Our basic valuation approach for WNX is as follows:

- We have built a DCF for WNX, incorporating its growth plans through acquisitions over a period of 5 years. The growth projections of the company are in-line with the impact of acquisition of BSA and growth plans of the company.
- The free cashflow achievable for FY 2022 to FY 2026 is discounted using WACC as on the valuation date to arrive at the present value of free cashflows
- The financial year end is June 30, 2022.
- The firm value is the summation of present value of free cashflows for the period FY 2022 to FY 2026 and the present value of terminal value.
- We have used a WACC of 10.40% and a terminal growth rate of 2.5%.
- Other assumptions included a 30% corporate tax rate.

Figure 14: DCF valuation for WNX

Valuation (A\$ '000)	Base case	Bull case
Present value of FCF	23,587	43,274
Present value of Terminal FCF	52,422	75,510
<b>Enterprise Value</b>	<b>76,009</b>	<b>118,784</b>
Net debt (cash)	(792)	(792)
<b>Equity value (A\$ '000)</b>	<b>76,800</b>	<b>119,576</b>
Share outstanding ('000)	303,306	303,306
<b>Implied price (A\$ cents)</b>	<b>25.32</b>	<b>39.42</b>
Current price (A\$ cents)	0.076	0.076
Upside (%)	233.2%	418.7%

Source: Pitt Street Research

Figure 15: Base case DCF value in A\$ cents using various WACCs

Sensitivity Analysis									
WACC	15.00%								
Terminal Growth Rate	2.00%	Change in WACC							
Implied Price (A\$ cents)	25.32	13.50%	14.00%	14.50%	15.00%	15.50%	16.00%	16.50%	17.00%
Change in Terminal Growth Rate	1.25%	29.48	27.58	25.85	24.26	22.80	21.45	20.21	19.06
	1.50%	29.96	28.01	26.23	24.60	24.45	21.73	20.46	19.28
	1.75%	30.46	28.45	26.62	24.95	23.42	22.01	20.71	19.52
	2.00%	30.98	28.92	27.04	25.32	23.75	22.31	20.98	19.76
	2.25%	31.53	29.40	27.46	25.70	24.09	22.62	21.26	20.01
	2.50%	32.09	29.90	27.91	26.10	24.45	22.93	21.54	20.26
	2.75%	32.96	30.43	28.38	26.15	24.82	23.62	21.85	20.53

Source: Pitt Street Research



## Re-rating WNX

- WNX is currently trading at a market capitalization of A\$30.8m, and we believe that the company is undervalued and demands re-rating driven by the following factors:
- 1) WNX's growth in revenue in FY 2022 due to the acquisition of BSA,
- 2) The fully integrated nature of the business after acquisition of BSA,
- 3) The distribution agreement with Performance Inspired,
- 4) WNX's plans of growth and expansion through launch of products and brands and addition of distribution channels.

## Risks

We see four main risks related to WNX's investment thesis.

- **Execution risk:** WNX's transition to becoming a part of the health and wellness industry is in a nascent stage. Being a new entrant, it currently faces challenges in product development, profile/brand building and market penetration for its products and services (in both local and overseas markets). There is a risk it may not attain steady growth and profitability in the competitive industry.
- **Consumer trend risk:** WNX's success depends on its ability to anticipate, react and adapt quickly to changes in industry trends as well as consumer preferences/attitudes towards its products and services. Failure to anticipate, react and adapt to industry trends in a timely and cost-effective manner may affect the company's financial performance.
- **Manufacturing risk:** WNX currently relies on third parties to manufacture its products. Any breach/non-compliance by these third parties can affect the production capability of WNX.
- **Partnership risk:** WNX's operational success will depend on the continuation of the strong relationship with key channel partners. In a scenario where a partner decides to pull out of the strategic alliance on short notice, WNX's growth prospects may be hampered.

## Experienced leadership team

The current leadership team of WNX possesses extensive experience with expertise in the health and wellness markets. The company's board composition is depicted below (Figure 16).

Figure 16: WNX's management and board members

Name	Designation	Appointment Year	Affiliations (Current and Past)
George Karafotias	Chief Executive Officer	2017	Perpetual Resources, Connexion Telematics, Kogi Iron, Fatfish Group, and Wingara Ag
Georgia Sotiropoulos	Chief Operations & Marketing Officer	2018	Woolworths (WOW), Specialty Fashion Group (SFG) and Big W
Zack Bozinovski	Chief Strategy Officer	2021	BSA, VÖOST, Uncle Tobys/Goodman Fielder, PepsiCo and Sigma



Steve Carroll	General Manager - Sales	2022	Novartis, CSL
Chris Kominatos	Scientific and Regulatory Director	2021	Pharma Solutions Australia

*Source: Company*

**George Karafotias** has more than 20 years of experience in multiple roles, predominantly as a senior executive. He specialises in restructuring and implementing a turn-around strategy for various listed companies. He also serves as a non-executive Director of Perpetual Resources Limited (ASX: PEC).

**Georgia Sotiropoulos** has more than 25 years of experience in Australian and international retail. Georgia drives the operations and marketing of the business to ensure delivery of the company's objectives and strategy.

**Zack Bozinovski** has more than 35 years of experience within fast-moving consumer goods (FMCG) and pharmaceutical companies in Australia and internationally. Zack's focus is to drive the innovation, strategy and vision across the business to ensure continued growth. He founded BSA in 2010 and joined Wellnex as part of the acquisition of BSA.

**Steve Carroll** has more than 35 years of experience in building brands, predominantly in the Health and Wellness space. For the past last 10 years Steve has held roles in sales, strategy, and commercial management for global pharmaceutical leaders including Novartis and CSL. He recently moved to Wellnex in order to follow his passion for building brands through strategic sales and marketing execution.

**Chris Kominatos** has 20 years of experience in leading commercialisations of pharmaceutical products and obtaining Therapeutic Goods Administration (TGA) approvals. Chris has consulted and worked with Australia's major pharmaceutical companies to obtain regulatory approvals and launch unique products under their banners, both for branded and private label and for complementary and scheduled therapeutic goods.

## Comparable companies

The Australian health and wellness industry is dominated by large pharmaceutical brands such as Sanofi, Procter & Gamble (P&G), Bayer, GlaxoSmithKline (GSK) and Dr. Willmar Schwabe. In addition to these global pharma companies, local Australian brands focussed on nutritional products, including Blackmores and Swisse, also dominate the market.

For firms directly comparable to WNX, we have considered publicly traded health and wellness product manufacturers with revenue below A\$100m and geographic focus being majorly Australia (Figure 17). The following are the key directly comparable companies.

**Clover Corporation Limited** (ASX: CLV): Founded in 1988, it refines and sells natural oils and related products, including nutritional and functional ingredients such as infant nutrition ingredients. Geographically, the group has a business presence in Australia, New Zealand, Asia, Europe and the Americas.

**Halo Food Co. Limited** (ASX: HLF): Founded in 2011, it manufactures and exports dairy, health and wellness and nutrition products, including dairy-nutrition-based powdered products, healthy meal and snack solutions, functional beverages, and handcrafted fudges. It operates in New Zealand and Australia under the KeyDairy, SuperCubes, Tonik and Gran's Fudge brands. It



also provides contract manufacturing services for milk powders, food service powders and health and sports nutrition blends and powders. The company was formerly known as Keytone Dairy Corporation Limited and changed its name to Halo Food Co. Limited in November 2021.

**Bubs Australia Limited** (ASX: BUB): Founded in 1993, it manufactures several infant nutrition products, including organic baby food, goat milk and organic cow's milk infant formula, adult goat milk powder, fresh dairy products, pouches, cereals, snacks and children's vitamin and mineral supplement products. It operates in Australia, China and internationally under the brands Bubs, CapriLac and Vita Bubs.

**Jatcorp Limited** (ASX: JAT): Founded in 2006, is engaged in developing and manufacturing healthy, nutritional food products and supplements, including dairy products, plant-based meats, clinical skin care, vitamins, and cosmetic products. It operates in Australia, China, New Zealand and other Asia-Pacific countries. Its brand includes Jinvigorate, Neuroio, Abbeyard, lone, Moroka, Poupin, Hopefern and V Meat.

**Elixinol Wellness Limited** (ASX: EXL): Founded in 2017, it manufactures and distributes industrial-hemp-based nutraceuticals, dietary supplements and skincare products in the Americas, Europe, and Australia. The company was formerly known as Elixinol Global Limited and changed its name to Elixinol Wellness Limited in May 2021.

**EVE Investments Limited** (ASX: EVE): Founded in 2003, it manufactures nutrition, health, and wellness products. It operates through four businesses: Meluka Australia Proprietary Limited, Jenbrook Australia, Naturally Australian Products Incorporated and Omni Innovation Proprietary Limited. Meluka Health Proprietary Limited provides retail health and wellness consumer products, including honey. Jenbrook Australia is a producer of organic tea tree and distributor of Australian botanical oils. Naturally, Australian Products Incorporated is a wholesaler of native Australian essential oils. Omni Innovation Proprietary Limited provides medical nutrition solutions for chronic and lifestyle diseases.

**Bioxyme Limited** (ASX: BXN): Founded in 1998, it engages in the research and development, manufacture and distribution of probiotic active pharmaceutical ingredients, well-being and nutritional supplements and beauty products. It provides its products online as well as through wholesale and direct sales in Australia, the United States, New Zealand and Asia.

**Figure 17: Comparable peers headquartered in Australia**

Company	Ticker	Market Cap (A\$m)	EV (A\$m)	FY21 Revenue (A\$m)
Wellnex Life	ASX:WNX	21.8	27.3	18.3
Clover Corporation Limited	ASX:CLV	194.7	200.1	60.5
Halo Food Co. Limited	ASX:HLF	21.6	32.5	50.7
Bubs Australia Limited	ASX:BUB	346.2	319.5	39.3
Jatcorp Limited	ASX:JAT	27.8	35.9	21.0
Elixinol Wellness Limited	ASX:EXL	7.6	(2.3)	9.3



EVE Health Group	ASX:EVE	4.3	4.4	2.8
Bioxyne Limited	ASX:BXN	8.3	6.2	2.1

Source: Bloomberg, Pitt Street Research; Market data as of 16 June 2022

WNL is still an emerging play when compared with the top-tier health and wellness companies (Figure 18).

**Figure 18: Metrics for bigger players operating in Australia**

Company	Ticker	Market Cap (A\$m)	EV (A\$m)	Revenue (A\$m)
P&G	NYSE:PG	454,051	495,251	102,013
Sanofi	EPA:SAN	177,080	194,550	61,836.1
GSK	LON:GSK	150,710	195,721	62,501
Bayer	ETR:BAYN	93,320	145,112	69,415
Blackmores	ASX:BKL	1,354	1,303	576

Source: Bloomberg, Pitt Street Research; Market data as of 16 June 2022





## Appendix I – Glossary

**B&P** – It stands for “Blend and Pack Pty Ltd” and refers to the company acquired by WNX in August 2017 that manufactures infant dairy nutritional products.

**BSA** – It stands for “Brand Solutions Australia” and refers to the company acquired by WNX to enter the health and wellness industry and expand its brand portfolio.

**CBDG** – It stands for “Corio Bay Dairy Group” and refers to a joint venture between WNX, ODFA and B&P.

**Complementary medicines** – It refers to the traditional products that form a part of the health and wellness industry, including vitamin, mineral, herbal, aromatherapy and homoeopathic products.

**Daigou** – Daigou is a consumer-to-consumer network based on exporting luxury and household goods from abroad into China. Originally a grey channel navigated mainly by international Chinese students sending friends and family members luxury items back home, Daigou had since progressed into a global community and industry consisting of anything from German knives to Australian baby food.

**ODFA** – It stands for “Organic Dairy Farmers of Australia” and refers to a farmer-owned Co-Operative formed in 2001 by a group of farmers determined to develop organic dairy farming in Australia to differentiate their dairy products from commodity markets and maximise the organic farm-gate milk price for co-operative members. ODFA is a leading supplier of organic milk produced in Australia and comprises certified organic and bio-dynamic farms across the main dairying regions of Victoria.

**OTC** – It stands for “over-the-counter” and refers to the medicines that are sold in pharmacies without the requirement of a prescription.

**SKU** – It stands for a “stock-keeping unit” and refers to the range of products offered by a specific brand.

**VNS** – It stands for “Vendure Nutrition Supplements” and refers to the health and wellness company based in the middle east region that has entered into a licensing agreement with WNX for the manufacturing and sale of WNX’s Uganic brand in the middle-east region.

**WHA** – It stands for “Wattle Health” and refers to the previous name of WNX.

## Appendix II – Major Shareholders

Investors	Ownership (%)
GGP Investments Pty	10.79%
Wattle Trading Pty Ltd	7.26%
Monex Boom Securities HK Ltd	5.85%

Source: Bloomberg

## Appendix III – Analyst Qualifications

Stuart Roberts, lead analyst on this report, has been an equities analyst since 2002.

- Stuart obtained a Master of Applied Finance and Investment from the Securities Institute of Australia in 2002. Previously, from the Securities Institute of Australia, he obtained a Certificate of Financial Markets (1994) and a Graduate Diploma in Finance and Investment (1999).
- Stuart joined Southern Cross Equities as an equities analyst in April 2001. From February 2002 to July 2013, his research specialty at Southern Cross Equities and its acquirer, Bell Potter Securities, was Healthcare and Biotechnology. During this time, he covered a variety of established healthcare companies, such as CSL, Cochlear and ResMed as well as numerous emerging companies. Stuart was a Healthcare and Biotechnology analyst at Baillieu Holst from October 2013 to January 2015.
- After 15 months over 2015–2016 doing Investor Relations for two ASX-listed cancer drug developers, Stuart founded NDF Research in May 2016 to provide issuer-sponsored equity research on ASX-listed Life Sciences companies.
- In July 2016, with Marc Kennis, Stuart co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Life Sciences companies.

Nick Sundich is an equities research analyst at Pitt Street Research.

- Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
- He joined Pitt Street Research in January 2022. Previously he worked for over three years as a financial journalist at Stockhead.
- While at university, he worked for a handful of corporate advisory firms.

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