



# Ag & Vet Weekly

Monday September 23 – Friday September 27, 2019

*All the news on ASX-listed agriculture and veterinary companies*

- \* SEP 27: ASX, AVW-41 UP: AVECHO UP 25%; WATTLE DOWN 8%
- \* FEDERAL AGRICULTURAL R&D INQUIRY
- \* FONTERRA REVENUE DOWN 1.6% TO \$20b, LOSS UP 209% TO \$605m
- \* FONTERRA DFE PHARMA SHARE SALE REDUCES DEBT BY \$1b
- \* RIDLEY CLOSURES MURRAY BRIDGE FEED MILL
- \* ROOTS TECHNOLOGY 'INCREASES CANNABIS YIELD 40%'
- \* ROOTS HEAT EXCHANGE 'STUB' LOWERS COSTS
- \* SYNLAIT \$46m ANZ ENVIRONMENTAL, SOCIAL, GOVERNANCE LOAN
- \* SYNLAIT POKENO FACILITY PROCESSES FIRST MILK
- \* NATIONAL VETERINARY BUYS 2 VET CLINICS for \$1.9m
- \* ELIXINOL APPOINTS HARMONIA LIFE OY FINLAND DISTRIBUTOR
- \* ALCHEMIA COMPLETES 1-FOR-20 CONSOLIDATION
- \* WATTLE PLEADS SCHULTZ, BELLAMY BID TO ASX 29% QUERY
- \* CRESO RESUBMITS PHARMACIELO ACQUISITION SCHEME BOOKLET
- \* ROOTS ISSUES 1.7m CONVERTIBLE NOTE SHARES
- \* HESTA BELOW 5% IN NUFARM
- \* WASHINGTON H SOUL PATTINSON REDUCES TO 24% IN CLOVER
- \* HARRY KARELIS, GEMELLI BELOW 5% IN AUSCANN
- \* RACE STRAUSS REPLACES A2 MILK CFO CRAIG LOUTTIT

## MARKET REPORT

The Australian stock market was up 0.58 percent on Friday September 27, with the ASX200 up 38.5 points to 6,716.1 points. Eighteen of the AVW-41 stocks were up, 13 fell, four traded unchanged and six were untraded.

Avecho was the best, up 0.1 cent or 25 percent to 0.5 cents with 1.65 million shares traded. Nannolose climbed 16.7 percent; Memphasys was up 12.1 percent; Regeneus was up 5.8 percent; Clover improved 4.8 percent; Nufarm, Pharmaust and Tasfoods were up three percent or more; Ecofibre, Ridley and Roots rose more than two percent; Althea, Fonterra, Seafarms and Tassal were up more than one percent; with Clean Seas, Elders and Select up by less than one percent.

Wattle led the falls, down 4.5 cents or 7.8 percent to 53 cents with 694,691 shares traded. Cann Global lost 6.25 percent; Cannpal, Food Revolution and THC were down more than three percent; National Vet shed two percent; Bubs, Cann Group and Costa were down more than one percent; with A2 Milk, Bega, Huon and Synlait down less than one percent.

## FEDERAL GOVERNMENT

The Federal Government says it has launched a discussion paper to modernize research and development corporations to support innovation for Australian farmers.

A media release from Federal Agriculture Minister Senator Bridget McKenzie said the discussion paper was about “modernizing our agricultural research and development to ensure the research and development corporation system is delivering value”.

The Federal Government said it was “committed to realizing a \$100 billion [agriculture] industry by 2030” and the discussion paper was an opportunity for those who have a stake in the system to be involved so we can make sure our agriculture sector is operating as effectively and efficiently as it can”.

The media release said the discussion paper was available for comment until November 4, 2019 at: <https://haveyoursay.agriculture.gov.au/modernising-rdc>.

## FONTERRA CO-OPERATIVE GROUP

Fonterra says revenue for the year to July 31, 2019 was down 1.6 percent to \$NZ20,114,000,000 (\$A18,741,749,705) with net loss after tax up 208.7 percent to \$NZ605,000,000 (\$A563,552,987).

Fonterra said revenue was mainly derived from the sale of its milk products.

Fonterra chief executive officer Miles Hurrell said that “2019 was incredibly tough for the Co-op but it was also the year Fonterra made decisions to set it up for future success.”

“These included us reflecting changing realities in asset values and future earnings, lifting our financial discipline, getting clear on why we exist and completing a strategy review,” Mr Hurrell said. “Many of these calls were painful, but they were needed to reset our business and achieve success in the future.”

“We made the decision to reduce the carrying value of several of our assets and take account of one-off accounting adjustments.” Mr Hurrell said (AVW: Aug 16, 2019).

The company said that diluted loss per share was up 150.0 percent to 35 NZ cents for the year to July 31, 2019, net tangible asset backing per share was down 9.8 percent to \$NZ4.67 and it had cash and cash equivalents of \$NZ550,000,000 at July 31, 2019, compared to \$NZ446,000,000 at July 31, 2018.

Fonterra was up five cents or 1.6 percent to \$3.20.

### FONTERRA CO-OPERATIVE GROUP

Fonterra says the sale of its 50 percent share in DFE Pharma for \$NZ633 million (\$A590.5 million) and proceeds from other asset sales have reduced its debt by \$1 billion.

In March, Fonterra said that it would review its share of DFE Pharma, up for sale due to the substantial capital required for its future growth.

Today, the company said it sold its share of the company to CVC Strategic Opportunities and the payment included \$NZ537 million in cash, payable on completion of the sale and a \$NZ96 million interest-accruing vendor loan for up to 15 years.

Fonterra said the deal included a potential additional payment of up to \$NZ44 million based on DFE Pharma's performance over two years.

Fonterra chief executive officer Miles Hurrell said the company set "a tough initial target for debt reduction and we are pleased with the progress we are making".

"It's an important milestone in our Co-op's plan to lift our business performance," Mr Hurrell.

### RIDLEY CORP

Ridley says it will close its Murray Bridge feed mill effective from October 25, 2019.

Ridley said it would close the feed mill to consolidate South Australian production volumes into its Wasleys feed mill, north of Adelaide.

The company said the Murray Bridge feed mill caused a cash drain of \$1.5 million a year and it would have a \$6.1 million restructuring cost based on medium term divestment of the site and an assessment of redundancy and remediation.

Ridley was up 2.5 cents or 2.5 percent to \$1.015.

### ROOTS SUSTAINABLE AGRICULTURE TECHNOLOGIES

Roots says its root zone temperature optimization technology increases cannabis flower yield by 40 percent and reduces the yearly plant growth cycle by 30 percent.

Roots said the data was collected at Northern California's Mendocino Natural Farms, where the temperature technology was installed in "early spring with growing taking place throughout summer amid severe temperature fluctuations".

The company said that "the roots of the cannabis crops were heated at night to remain at a stable range of approximately 23 degrees centigrade, despite air temperatures in the hoop house frequently dropping below 10 degrees centigrade".

Roots said that with its temperature technology, Mendocino Natural Farms expected to double the amount of yearly harvests due to the 30 percent reduction in yearly growth cycles.

Roots' chief executive officer Dr Sharon Devir said the results "validated the multiple benefits our two-in-one heating and cooling technology can provide to high worth crops by rapidly improving growing cycles and increasing resistance to extreme weather conditions".

"Based on increased production and quality, [root zone temperature optimization technology] will allow cannabis growers to generate an attractive and expeditious return on investment compared to similar cooling and heating technologies," DR Devir said.

"The results will allow Roots to build tangible case studies which can be leveraged to secure further sales and complement the company's sales efforts in the North American cannabis market," Dr Devir said.

Roots was up 0.1 cent or 2.2 percent to 4.6 cents.

## ROOTS SUSTAINABLE AGRICULTURE TECHNOLOGIES

Roots says its “heat exchange stub” for soil temperature control in pots and grow bags has lower installation costs compared to its primary temperature technologies.

Roots said the stub was designed to be inserted into the tops of pots and grow bags which “significantly” simplified and lowered the installation costs of its Root Zone Temperature Optimization (RZTO) technology.

The company said the stubs could be inserted to single pots and grow bags for mobility during the growing cycle, or chained together with insulated pipes for row installations.

Roots said a pilot study, at its Beit Halevi, Israel research hub, showed that the stub “effectively maintained soil temperatures in pots at optimal ranges despite extreme air temperatures of over 40 degrees centigrade”.

The company said that the stub would be an additional source of post-sale revenue offered alongside monitoring, control and agricultural advisory services.

Roots chief executive officer Dr Sharon Devir said that the Roots heat exchange stub allowed the company to “introduce its RZTO technology into the nursery, cannabis and greenhouse markets, where pots are used in large quantities and soil temperature control is a major challenge”.

“Roots’ proprietary stub enables producers to stabilize pot and grow bag soil temperatures year-round, increases pot maneuverability as well as significantly reduce costs associated with RZTO installation,” Dr Devir said. “We believe our latest innovation offers significant opportunities for the company within an unaddressed nursery market.”

## SYNLAIT MILK

Synlait says it has transferred its a four-year \$NZ50 million (\$A46.3 million) ANZ Bank “revolver loan” to an “environmental, social and governance-linked loan”.

Synlait said the environmental, social and governance (ESG) loan was the first in New Zealand to encourage the “borrower to further improve its reporting performance against a set of independent ESG criteria” set by the Amsterdam-based Sustainalytics.

The company said the performance was measured by Sustainalytics’ ESG risk rating, which measured the yearly financially material ESG risks of a company.

Synlait said that Sustainalytics prepared ratings for more than 11,000 companies and were widely used in Europe to assess risk ratings on companies implementing ESG-linked loans.

ANZ sustainable finance head Katharine Tapley said that “Synlait’s strong commitment to sustainable business practices made it an ideal candidate for this type of financing” and that the loan would “showcase that ESG initiatives can deliver material financial benefits”. Synlait was down one cent or 0.1 percent to \$8.47.

## SYNLAIT MILK

Synlait says it has processed its first milk run at its Pokeno, New Zealand nutritional powder manufacturing facility.

Synlait said the facility used a spray dryer which could produce up to 45,000 metric tonnes of nutritional, formulated milk-based powders, including infant-grade skim milk, whole milk and infant formula base powders.

Synlait chief executive officer Leon Clement said that Pokeno was “a highly sophisticated facility ... [and] this first milk run is a significant milestone for our team”.

The company said it would recruit a further 22 employees to allow Synlait Pokeno to manufacture infant formula after receiving regulatory registration.

### NATIONAL VETERINARY CARE

National Veterinary says it will pay \$1.94 million to acquire two veterinary clinics in Australian and New Zealand, with expected settlement by November 30, 2019.

National Veterinary said it would pay \$1.34 million upfront, with the remaining \$600,000 to be paid “partially subject to earn out conditions”.

The company said it expected the acquired clinics to provide a revenue of about \$2.45 million a year, with expected earnings before interest and taxes of \$470,000.

National Veterinary said the New Zealand clinic was a “strategic acquisition” would be combined with a smaller Pet Doctors clinic for a “larger, more sustainable clinic”.

The company said the clinics were in areas with existing company clinics, but did not disclose the specific locations.

National Veterinary said that following the completion of the acquisitions, the company would have acquired 102 integrated veterinary services businesses.

National Veterinary was down five cents or 2.0 percent to \$2.43.

### ELIXINOL GLOBAL

Elixinol says it has a five-year exclusive distribution agreement with Harmonia Life Oy for its Elixinol branded hemp and hemp-derived cannabidiol products in Finland.

Elixinol said the agreement with the Finland-based Harmonia Life was “based on achievement of minimum annual sales targets”, but did not provide details of the minimum sales targets.

The company said that the expected contribution to Elixinol’s revenue would be “not material in the short term”, but would represent “continued execution of its global expansion strategy and is an extension of Elixinol’s current European footprint”.

Elixinol chief executive officer Stratos Karousos said the agreement would allow “Elixinol to further expand our European operations and launch Elixinol branded products throughout various retail channels in Finland.”

Elixinol was unchanged at \$2.07.

### ALCHEMIA

Alchemia says it has completed its one-for-20 share consolidation reducing its former 324,723,621 shares on issue to 16,234,845 shares, effective from today.

Earlier this month, Alchemia passed the 20-for-one reduction as part of a series of resolutions to become the Australian Primary Hemp (BD: Sep 16, 2019).

Alchemia was untraded at 22 cents.

### WATTLE HEALTH AUSTRALIA

Wattle has told the ASX that it is not aware of any information it has not announced which, if known, could explain recent trading in its securities.

The ASX said the company’s share price rose 29.8 percent from a low of 57 cents to a high of 74 cents on September 23, 2019 and noted a “significant increase” in trading volumes.

The company said that the acquisition of Bellamy’s Australia by China Mengniu Dairy Co for \$1.5 billion had “created a positive impact in the sector”.

Wattle said that its 52-week high was \$1.175 a share, significantly higher than the current share price.

Wattle was down 4.5 cents or 7.8 percent to 53 cents.

### CRESO PHARMA

Creso says it has resubmitted an independent expert's report to the Australian Securities and Investments Commission for its proposed acquisition by Pharmaciello.

In June, Creso said the Vancouver, British Columbia-based Pharmaciello would acquire it for \$122 million in a share and option scheme (BDL Jun 7, 2019).

Today, the company said it lodged a draft of scheme booklet for the proposed schemes of arrangement with Pharmaciello for a statutory review by the Australian Securities and Investments Commission on August 27, 2019.

Creso said the draft scheme booklet included an independent expert's report from BDO Corporate Finance, who concluded that the share scheme was not fair but was reasonable and the option scheme was both fair and reasonable, so both were in the best interests of shareholders.

Creso said it intended to seek orders convening meetings of its shareholders and listed option holders to consider and vote on schemes at a Supreme Court of Western Australia hearing on September 17, 2019.

The company said BDO withdrew its letter on September 16 after Pharmaciello TSX Venture Exchange (TSXV) shares declined "below the valuation range outlined ... to the point where BDO no longer considered the schemes to be in the best interests of Creso Pharma's security holders".

Last week, Creso requested a voluntary suspension following its trading halt "pending an announcement regarding the proposed acquisition of the company by Pharmaciello" (BD: Sep 16, Sep 18, 2019).

Today, the company said it had engaged in correspondence with BDO, providing information including Pharmaciello's share price on TSXV, which had "significantly increased".

The company said BDO since issued a new independent expert's report, which concluded that the schemes were in the best interests of its shareholders.

Creso said it updated its scheme booklet and had resubmitted it to the ASIC and would proceed to a first court hearing scheduled for October 2, 2019.

Creso was untraded at 38.25 cents.

### ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES

Roots says it has issued 1,666,667 Chess depository instruments (CDIs) for the conversion of 70,000 notes, with a deemed issue price of 4.2 cents per share.

According to the company's Appendix 3B new share issue announcement, including the new shares, Roots had 72,209,471 CDIs on issue, 13,832,402 listed options and 18,758,654 CDIs subject to escrow until December 6, 2019.

### NUFARM AUSTRALIA

The Health Employees Superannuation Trust Australia (Hesta) says it has ceased to be a substantial shareholder in Nufarmers.

Hesta said that in 55 transactions between March 22 and September 23, 2019 it bought and disposed of shares, with the largest sale on September 12 of 2,000,000 shares for \$8,816,576 or \$4.40 each.

Biotech Daily calculates that Hesta retains 18,919,295 shares or 4.98 percent of Nufarm. Nufarm was up 13 cents or 3.0 percent to \$4.46.



### CLOVER CORP

Washington H Soul Pattinson and Co says it had reduced its holding in Clover from 42,728,439 shares (25.87%) to 39,994,055 shares (24.05%).

The Sydney-based Washington H Soul Pattinson and registered shareholder BNP Paribas Nominees said that on August 29, 2019 they sold 1,624,196 shares for \$2,549,988 or \$1.57 a share and on September 20, 2019 sold 1,110,188 shares for \$2,776,136 or \$2.50 each.

Clover was up 14 cents or 4.8 percent to \$3.08.

### AUSCANN GROUP HOLDINGS

Gemelli Nominees says it has ceased to be a substantial shareholder in Auscann.

In 2017, Gemelli said that it had become a substantial shareholder in Auscann with 13,226,331 shares or 6.11 percent of the company.

Today, in a substantial shareholder notice signed by Gemelli director and Zelda Therapeutics chairman Harry Karelis, Gemelli said that on February 4, 2019 it sold 1,350,113 shares for \$707,999 or 52.4 cents a share.

Biotech Daily calculates that Mr Karelis and Gemelli retain 11,876,218 shares or 3.75 percent of Auscann

Auscann was unchanged at 35.5 cents.

### THE A2 MILK COMPANY

A2 Milk says Race Strauss will replace chief financial officer Craig Louttit, who will continue as the company's deputy chief financial officer.

A2 Milk said Mr Louttit had decided to step back from the role "to spend more time with his young family" but would continue to hold a senior role in the company.

The company said Mr Strauss would join the company as chief financial officer by July 2020.

A2 Milk said Mr Strauss was an experienced finance executive with a packaged goods background and international business experience in China and other Asian regions.

The company said Mr Strauss was previously chief financial officer at both Jetstar and Qantas Airlines, and held senior finance and strategy roles for over 20 years at the London-based Unilever.

A2 Milk was down 10 cents or 0.8 percent to \$12.16 with 3.7 million shares traded.