



Building a business out of the green gold of the Pacific

The Calmer Co. International (ASX: CCO) sells beverages made from kava, a plant indigenous to the Pacific Islands traditionally consumed in beverage form. It has been called the 'green gold of the Pacific' because of its cultural, social and economic significance. The company distributes its products – kava powder that can be made into a drink by adding water as well as flavour boosters - online (through its own proprietary and intermediary channels) and through a retail presence in Coles supermarkets in Australia.

Kava is growing in popularity

Kava has been used as a ceremonial drink in the Pacific Islands and is increasingly gaining traction around the globe because of its potential to aid with health conditions, particularly anxiety, insomnia, muscle soreness and stress. Kava has been proven because it aids an inhibitory neurotransmitter called gamma-aminobutyric acid, or GABA for short, in counteracting stress responses in the body. Kava is growing in popularity for several reasons including awareness of its health benefits, but also a change in attitudes and regulations that have historically been negative.

Take II: More sales and higher margins

Many investors will remember that Calmer Co. has been listed on the ASX for several years and was unsuccessful for some time post its listing. The company initially focused on selling products through Chinese cross border channels and through unprofitable sales at Chemist Warehouse. But under new leadership, the Calmer Co has since pivoted its strategy and has secured new distribution agreements in Australia and overseas, focused on online sales. Calmer Co. has also emphasised kava as a beverage, rather than as a medicine, which makes its potential audience larger and more receptive.

Valuation range A\$0.018-0.024 per share

We value The Calmer Co. as \$56.1m in a base case and \$72.5m in an optimistic (or bull) case, equating to \$0.018 per share and \$0.024 per share respectively. We believe the company can continue to re-rate as it continues to grow its sales and reaches cash flow break even in FY26. The key risks, outlined in further detail on p.21 include commercial and regulatory risks.

Share Price: A\$0.008

ASX: CCO

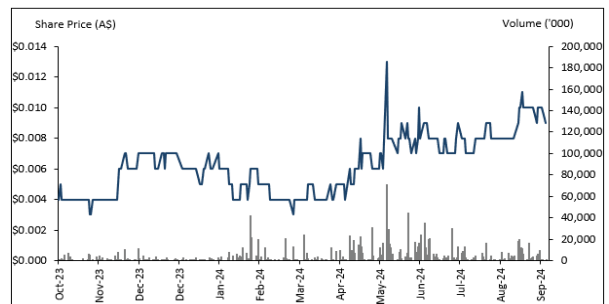
Sector: Consumer

1 November 2024

| | |
|-------------------------------|---|
| Market cap. (A\$ m) | 17.6 |
| # shares outstanding (m) | 2,201.4 |
| # shares fully diluted (m) | 3,038.2 |
| Market cap ful. dil. (A\$ m) | 24.3 |
| Free float | 100% |
| 52-week high/low (A\$) | 0.013 / 0.003 |
| Avg. 12M daily volume ('1000) | 5,180.6 |
| Website | https://thecalmerco.com |

Source: Company, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Refinitiv Eikon, Pitt Street Research

| | |
|--------------------------------|-------------|
| Valuation metrics | |
| DCF fair valuation range (A\$) | 0.018-0.024 |
| WACC | 11.9% |
| Assumed terminal growth rate | 2% |

Source: Pitt Street Research

Pitt Street Research directors own options in The Calmer Co. International.

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The Calmer Co. International

The Calmer Co. is a company which sells beverages made from kava, an herb that is traditionally consumed in beverage form in Fiji and other Pacific Islands.

An overview of The Calmer Co. International

The Calmer Co. is headquartered in Brisbane, but owns a facility in Fiji from which it processes raw material sourced from kava plants from farms across the company. The company distributes its products online and through a retail presence in Coles supermarkets in Australia as well as through international sales channels.

The Calmer Co. originated from a company founded by Zane Yoshida in 2010 called South Pacific Elixirs. That company developed and marketed kava products, including a ready-to-drink kava, in various countries outside Fiji most notably in the US. The Calmer Co., originally called Fiji Kava, was founded in 2014 to acquire South Pacific Elixirs and develop medicinal format products using extracts of kava. Fiji Kava went public on the ASX in December 2018 after raising \$5.2m at 20 cents per share. It changed its name to The Calmer Co. in April 2023.

Many longer-term followers of the ASX small cap space would remember this company struggled for several years post-listing. And, knowing that legendary investor Sir John Templeton said the four most dangerous words in investing are 'this time it's different', would wonder why there is cause for optimism here.

As we will outline in this report, the company has a different leadership team than it did 5 years ago, with Dr Anthony Noble taking the reins in May 2021. Under Dr Noble's leadership the company pivoted its strategy, turning to more profitable sales channels and distributional agreements, as well as emphasising kava as a beverage rather than a medicine. There are signs that things are turning around – the company's sales for the June quarter of 2024 were more than 3x higher than 12 months prior, and total FY24 sales were 142% ahead of FY23. Recently released FY24 Q1 sales demonstrate this trend is continuing with sales again 3x the prior year's results.

10 key reasons to look at The Calmer Co

- 1) **Calmer Co is the only ASX company selling Kava - a product with rapidly growing popularity.** Kava has traditionally been confined to the Pacific Islands but has been growing in popularity around the world because of its sedative, anaesthetic and euphoriant properties. It has grown in popularity for many reasons including destigmatisation of it in Western countries, growing awareness about mood and health benefits that can be derived from it not to mention the lifting of long-standing prohibitions on imports.
- 2) **Kava can be used for medical conditions, and there is a scientific basis.** Kava can potentially be used for a range of health conditions, notably anxiety, insomnia, muscle soreness and stress. As we will outline in this report, there is empirical data to support these observations. The challenge is that kava typically is only sold in the USA and Australia as a listed complementary medicine and dietary supplement respectively. Sales into other countries may come online with regulatory relaxation in the future.
- 3) **Calmer Co has gotten its act together.** After a few unsuccessful years, Calmer Co has turned itself around, finding more profitable sales channels, focusing on online distribution and emphasising kava as a beverage rather than as a medicine-style capsule. The company is experiencing rapidly growing sales and is targeting cash breakeven in FY26.



The Calmer Co. International

- 4) **The company has an extensive distribution network.** Calmer Co distributes in Australia through Coles and is present in hundreds of supermarkets. In November 2023 Coles started carrying Taki Mai shots as well as Fiji Kava powder. In July 2024 Coles increased the number of listings from The Calmer Co. around Australia by 40% to encompass almost all Coles supermarkets nationally. Globally, its partnerships include with Amazon and Walmart in the USA and with Tmall in China, but also has its own eCommerce store with Shopify.
- 5) **Building a strong supply chain.** Supply chain issues have crippled many companies since the pandemic, but not Calmer Co. In order not to be impacted by severe weather events like Cyclone Winston, which devastated many kava farms in February and March 2016, The Calmer Co. has supply and processing arrangements across the Fiji Island Group and is building a supply chain that spans the South Pacific. This chain has taken over 10 years and \$10m to build, making it a significant competitive advantage and barrier to competition.
- 6) **The company has a heavy focus on online sales,** which has enabled it to find a larger number of customers than otherwise would have been possible. It has a customer database of >50,000 people and has turned many of them into paying customers.
- 7) **Catalysts from international sales.** Calmer Co is eyeing off international markets, particularly the US where kava is becoming an increasingly popular beverage – there are over 450 kava bars there and growing. China is another important market, where Calmer is on Alibaba's Tmall Global marketplace.
- 8) **Future product innovation offers potential for further growth.** The company continues to invest in new R&D initiatives, exploring the potential of different extract formats and new products altogether. The key initiative is flavoured kava shots which the company anticipates delivering in FY25.
- 9) **Calmer Co has a quality leadership team.** It has an experienced team with years of experience both commercially and in the healthcare sector. We note that Non-Executive Chair James began his career as a porter at St Vincent's Hospital before being responsible for coordinating the entire NSW Public Hospital Payroll System in the industrial relations division of the Department of Health. Founder Zane Yoshida, has an extensive engineering background and is now Executive Director and Chief Operating Officer, stewarding the companies' Fijian operations.
- 10) **We believe Calmer Co is undervalued** at its current market value. We have valued Calmer Co at \$56.1m in a base case scenario and \$72.5m in an optimistic (or bull) case scenario – equating to 1.7c per share and 2.1c per share respectively under the current number of shares on issue. We take courage in the company's rerating from all-time lows in the past 18 months and believe the trajectory can continue if the company's sales continue their strong momentum.



An overview of Kava

As a company in the kava space, investors wanting to understand The Calmer Co. and the opportunity before it need to understand kava itself. In this section we will cover why kava is used, what the positive and negative side effects are, as well as the past and present historical framework in the key markets that The Calmer Co. is eyeing off.

What is kava?

Kava is an herb derived from the root of the kava plant *Piper methysticum*, a member of the pepper family that also includes black pepper (Figure 1). There are several varieties of kava although there is no single variety that dominates production and there is minimal evidence that any are easier to grow, to produce or have more of an effect than others¹. Hence, we will not allude to any distinctions between varieties of kava any further.

Historically, kava was used as a ceremonial drink in Fiji and the Pacific islands for commemorating significant events like weddings, funerals, and the birth of children (Figure 2) and it is still used today on such occasions. It may be given as a gift. Alternatively, there may be a 'kava ceremony' at these times, or on other occasions. They tend to be held in special meeting places dedicated for kava preparation and consumption, known as nakamals or vale ni kavas. These ceremonies involve the preparation of kava where the root is pounded into a powder and mixed with water (typically coconut water). The kava is poured into a coconut shell cup called a 'bilo', in a ritual known as 'taki' and is then presented to guests at the occasion.

Historically, kava was used as a ceremonial drink in Fiji and the Pacific islands for commemorating significant events like weddings, funerals, and the birth of children.

Figure 1: Kava as a raw herb



Source: Envato stock image

Figure 2: Kava served as a liquid



Source: Company

Locals in Vanuatu greeted Queen Elizabeth and Prince Phillip in 1974 and Charles III in 2018 (then the Prince of Wales) with a kava ceremony. Prince Harry and Megan Markle also enjoyed kava during their visit to Fiji in 2018, and King Charles was greeted with a kava ceremony at the recent CHOGM held in Samoa. Given the cultural, social and economic significance, kava has been called the 'Green Gold of the Pacific'.

¹ <https://pafpnet.spc.int/attachments/article/779/Fiji-Kava-Quality-Manual.pdf>, p.17



Kava can potentially be used for a range of health conditions, notably anxiety, insomnia, muscle soreness and stress.

Kava is finding use amongst a broader population, and for good reason

While kava maintains its traditional use in the Pacific Island, it has increasingly been used as a drink in more casual settings, both in the Pacific Islands and in the West as perceptions and regulations towards it change. Kava is known to have sedative, anaesthetic, and euphoriant properties, with the active ingredients being a group of approximately 18 compounds collectively referred to as kavalactones. Kava can potentially be used for a range of health conditions, notably anxiety, insomnia, muscle soreness and stress.

Why is kava useful in anxiety? Anxiety results in part from an inhibitory neurotransmitter called gamma-aminobutyric acid, or GABA for short, not being able to counteract stress responses in the body. When GABA attaches to its receptor, it produces a calming effect, helping with feelings of anxiety, stress, and fear. The benzodiazepine agonists such as Valium and Xanax usually used to treat anxiety work by increasing GABA transmission. Kava treats anxiety because it aids the GABA receptors.

The more general 'kick' from kava comes from active chemical compounds collectively called kavalactones that are present in it. Kava buyers care significantly about the amount of kavalactones (and specific amounts of the major kavalactones) that are present in it and buy varieties of kava accordingly².

But does kava really work in easing anxiety? A world-first double-blind placebo-controlled study reported in 2013 by researchers at the University of Melbourne, led by Dr Jerome Sarris, who was Chief Scientific Officer at Fiji Kava, found that kava was effective in reducing short-term anxiety in 75 patients diagnosed with Generalised Anxiety Disorder. Of the 58 evaluated patients 37% of the kava group reported reduced anxiety symptoms on the HAMA scale (Hamilton Anxiety Rating Scale) compared with 23% of the placebo group, a result that was statistically significant ($p=0.046$). At the end of the six-week study, 26% of the kava group had experienced remission of their anxiety as against only 6% of the placebo group ($p=0.04$). The investigators found that the effect on GABA transporters was responsible for the reduction.

Are there negative side effects of taking kava? There has been some scant evidence that kava can have negative interactions with drugs like opioids and benzos. When kava is taken on its own there have been claims that it increases the risk of liver damage. However, observed cases have been very rare (less than 1 in a million daily doses) and are usually in people who had prior liver disease or used other drugs (like alcohol or opioids) in addition to kava³ - some observed cases have even ignored professional medical warnings to cease their use of kava with alcohol⁴. Despite the rarity of such cases, there has been historic stigma surrounding kava for these reasons and consequential regulation of kava has followed. But things are gradually changing.

² <https://pafpnet.spc.int/attachments/article/779/Fiji-Kava-Quality-Manual.pdf>, p.10

³ <https://www.ncbi.nlm.nih.gov/books/NBK548637/>

⁴ Ibid.



The reputation of Kava is gradually changing and so are regulations – albeit slowly.

What are the regulations impacting the kava trade?

Kava has historically been controversial and often regarded as a drug of abuse like cannabis once was. This profile is gradually changing, albeit slowly.

In Australia, the situation has been complicated. Kava is currently legal at a federal level, although there are some caveats⁵ including that:

- Importers need a permit issued by the Office of Drug Control for each consignment that is imported,
- Only some forms of kava are permitted under biosecurity laws including dried or raw kava root of the Noble variety in the form of kava root chips, kava root powder, or whole kava root and kava beverages.
- Kava needs to be packed in clean and new packaging, free from biosecurity risk material, and
- it remains banned in the Northern Territory.

In June 2007, the Australian government banned commercial imports of drinking kava over concerns that it could be a drug of abuse, but still allowed travellers to enter Australia carrying up to 2 kg per passenger and for kava to be imported for medicinal purposes. In December 2019 the personal use exemption was increased to 4 kg as part of efforts to improve relations between Australia and its Pacific neighbours, and the commercial import ban was lifted in early 2022. This was crucial for the company. Consider that in the year prior to the ban, there were 70 metric tonnes imported per year – even with only half the number of Australians with South Pacific heritage as they are now.

Turning to Europe, Kava has experienced restrictions there in the past. In fact, it was only banned in the 1990s in a move that impacted millions of dollars of sales per year – Kava export earnings in Fiji peaked at FJ\$35m per year in the 1980s⁶. The German ban was reversed in June 2014, and the bans in France and Switzerland have come off, so that the only European country in which kava is banned is Poland. In that country possession is legal but sale is illegal.

Looking at North America, kava has never been banned in the USA, although it was the subject of an FDA consumer advisory in March 2002 about the potential risk of severe liver injury. Canada banned kava sales in August 2002 and then regulated kava as a 'natural health product', with individual products having to be approved by the Natural and Non-Prescription Health Products Directorate, part of Health Canada⁷. In both Canada and the USA, kava is only approved as a dietary supplement, and not as a prescription to relieve problems such as anxiety and insomnia.

Of course, the most important regulation of all impacting Calmer Co. is its permission from Fijian regulators to export Kava. The company has a Foreign Investment Registration Certificate which permits the company to conduct and undertake commercial agriculture for the purposes of cultivating kava. It is permitted to manufacture kava and kava related products, and to export, wholesale and retail kava farm produce, kava and kava related products. It is important to note when the company obtained its regulation, prior to its 2018 IPO, it was the first time a foreign investor was granted approval since the Fijian Foreign Investment Act was amended to allow this to be granted on a case-by-case basis.

⁵ Office of Drug Control (Australia)

⁶ <https://www.theguardian.com/world/2020/feb/05/the-great-kava-boom-how-fijis-beloved-psychoactive-brew-is-going-global>

⁷ <https://www.healthlinkbc.ca/health-topics/kava>



Calmer Co's products and its business model

The company has 3 brands: Fiji Kava, Taki Mai and Danodan Hempworks.

The company has 3 brands: **Fiji Kava**, **Taki Mai** and **Danodan Hempworks**.

Under the 'Fiji Kava' brand, The Calmer Co sells kava powder that can be made into a drink by adding water, as well as 'flavour boosters' that have no kava in them but can be used to offset the naturally bitter taste of the herb (Figure 3). The bestselling product, and the most profitable, is the 150g drinking kava.

The company promotes Fiji Kava products as providing 'relaxation in less than 15 minutes', pointing to the fact that effects are typically manifest within a mere 5-15 minutes from consumption, and that the uplifting experience lasts anywhere from 1 to 3 hours, while the soothing and stress-melting benefits have potential to linger even longer.

The company also sells kava 'shots' under the Taki Mai brand (Figure 4) and is the only company able to deliver cold pressed kava shots to a large consumer market. Taki Mai is a heritage brand, and the expression is synonymous with kava in Fiji.

Figure 3: Fiji Kava products



Source: Company

Figure 4: Taki Mai



Source: Company

In January 2022, Calmer Co acquired Danodan Hempworks LLC. Danodan produces a suite of organic certified CBD tincture products (in hemp and oil form) sold throughout wellness boutiques and regional natural foods grocery stores in the USA (Figure 5). Danodan is a modest proportion of sales, generating just over \$275,000 in FY24, which represented 6.5% of the company's total revenue during FY24.



Figure 5: Danodan Hempworks



Source: Company

Most of The Calmer Co.'s sales come from its own online channels (particularly the websites for its own brands and the company's store on Shopify) but it reaches consumers through third-party intermediaries too.

- In Australia, Calmer Co has a retail presence in Coles supermarkets. In late July 2024, it expanded the range from 1,563 listing to 2,163 across all products.
- In Fiji, Calmer Co has a dominant position in tourist channel markets including airports and high-end hotel chains.
- In North America, channels include Amazon and Walmart, in addition to the company's own store on Shopify. Fiji Kava products first went on sale in Walmart's e-store in February 2024, while it has been present on Amazon for several years now.
- In China, consumers have been able order the company's products through a Tmall Flagship store since October 2023. The foray into China was in partnership with RooLife Group and commenced with Noble Sleep and Noble Kava capsules.



The Calmer Co. International

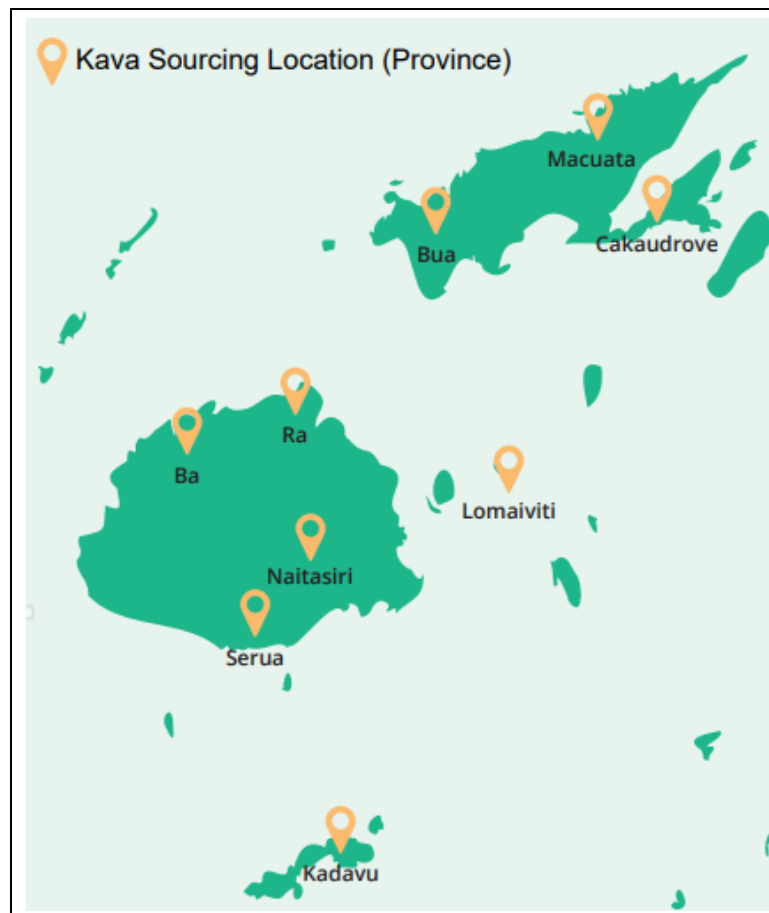
The Calmer Co. buys kava plants from farms across Fiji and processes the raw material into kava beverages and powders in a facility in Navua.

How The Calmer Co. sources and manufactures its products

The Calmer Co. buys kava plants from farms across Fiji (Figure 6) and processes the raw material into kava beverages and powders in a facility in Navua, approximately 20 km from the capital of Suva on the main Fiji island of Viti Levu. The company's processes are HACCP and GMP compliant. The Calmer Co. uses only 'Noble kava', that is, kava cultivars that have long history of safe use as a traditional social beverage, rather than 'Tu Dei' (intoxicating) kava or wild kava, which may have a worse hepatotoxic profile than Noble kava.

In order not to be impacted by severe weather events like Cyclone Winston, which devastated many kava farms in February and March 2016, The Calmer Co. has supply and processing arrangements across the Fiji Island Group and is building a supply chain that spans the South Pacific. The company has invested a total of 10 years and \$10m to build the supply chain, and it is inevitable that it would take a similar time (if not more) to replicate this – making it a significant competitive advantage and barrier to competition. The total supply chain accounts for 91.6% of kava farmers in Fiji.

Figure 6: Kava sourcing locations



Source: Company

Calmer Co historically leased its Navua facility (Figure 7), but has made an agreement to purchase the site (including the land, buildings and plant) for FJ\$4.4m – subject to finance. The site is 5,856m² encompassing the facility and several residential dwellings, which will be used as staff quarters. The



The Calmer Co. International

From November 2024, the company will undertake a major upgrade of its site to ensure that it is able to realise its growth ambitions.

facility totals 1,930m² and includes office space, a laboratory, two cold rooms, a blast freezer and mezzanine level storage.

From November 2024, the company will undertake a major upgrade of its site to ensure that it is able to realise its growth ambitions. The company is installing around FJ\$1m of new plant and equipment, including installing:

- A new 750kW transformer required to power a new production line,
- A Mesh Belt continuous drying system
- Automated packaging lines,
- In line milling, sieving and blending, and
- An improved quality assurance laboratory with HPLC (High-Performance Liquid Chromatography) which separates compounds in chemical mixtures.

These new features will not only enable a higher output, but also enable its new ideas including micronized instant kava, traditional grind drinking kava, Taki Mai Juice sots, Fresh Frozen Kava for beverage applications and Flavoured kava shots.

Figure 7: Calmer Co's Navua Facility



Source: Company

The company already tracks its kava from the farm gate, including geolocation of the individual farm at the time of collection by sourcing officers. Individual batches and lots of kava roots and rhizomes are tracked through the cleaning, milling, extraction and centrifugation processes on the Traseable (sic) app in real time. Purchasing of kava from farmers is conducted by 'M-PAiSA' digital payment technology, allowing immediate payments and for the removal of cash from the supply chain. Eventually, Calmer Co. intends to distribute products with a QR code on the pack, enabling customers to see the individual supplier and, potentially, donate to social impact projects in that particular village.



The Calmer Co. International

The Calmer Co. has pivoted its business model since its earlier years on the ASX and the results are increasingly manifest as each month passes.

The wheels began to turn when Dr Anthony Noble joined as CEO in May 2021.

Why should we trust the company this time?

Investors may remember Calmer Co. going back to pre-pandemic times when it was known as Fiji Kava and its lack of success then. They might be wondering how and why we can trust it this time – are things different? The simple answer is, yes, they are. The Calmer Co. has pivoted its business model since its earlier years on the ASX and the results are increasingly manifest as each month passes.

Mk. 1 was not successful, but Mk. 2 is proving to be different

It is true that The Calmer Co. made some mistakes post-listing. Its original approach was to focus efforts on attempting to sell Fiji Kava products via Chinese cross border channels, coupled with unprofitable sales at Chemist Warehouse in Australia under a distribution agreement announced in April 2021. This approach failed to deliver shareholder value. In selling via Chemist Warehouse, the margins were thin to negative for The Calmer Co. For China, the company was unable to gain traction through various distribution partners that it contracted with. The result was low sales at below total costs. As a result of this failure The Calmer Co. stock went as low as 0.3 cents per share in April 2023, from a listing price of \$0.20 per share.

The wheels began to turn when Dr Anthony Noble joined The Calmer Co. as CEO in May 2021 and when the founder, Zane Yoshida rejoined management as COO from May 2023. Under Dr Noble and Mr Yoshida's leadership the company has:

- Emphasised kava as a beverage, rather than a medicine-style capsule.
- Changed distribution arrangements where those arrangements are clearly unprofitable.
- Focused on online sales at prices that yielded positive gross margins for The Calmer Co.
- Invested in its online sales, with meaningful spending on Search Engine Optimisation and in Google and Meta ads to grow traffic through www.fijikava.com.au and fijikava.com. These investments started to pay off in the second half of calendar 2023.
- Changed its US sales strategy. Until 2023 Fiji Kava products were sold online exclusively through the Amazon marketplace in the US, however that year the company made the decision to diversify its sales channel. It still sells on Amazon but has added other channels including Shopify, which has been integrated with Walmart.com for the US.
- Moved Chinese sales to Alibaba, with a flagship store on Alibaba's Tmall marketplace from late 2023.
- Concentrated the Australian physical presence at Coles, where the discount model of that supermarket chain was reliably profitable for The Calmer Co. In November 2023 Coles started carrying Taki Mai shots as well as Fiji Kava powder. In July 2024 Coles increased the number of listings from The Calmer Co. around Australia by 40% to encompass almost all Coles supermarkets nationally.
- Increased product innovation and liberalisation so that the company had more to sell. Until December 2021, the company was only able to import products as complimentary medicines, but it obtained approval to import drinking kava into Australia under the Kava Pilot Importation Program facilitated by DFAT. There is R&D work ongoing on new products, particularly flavoured shots, flavoured stick packs and kava tinctures.



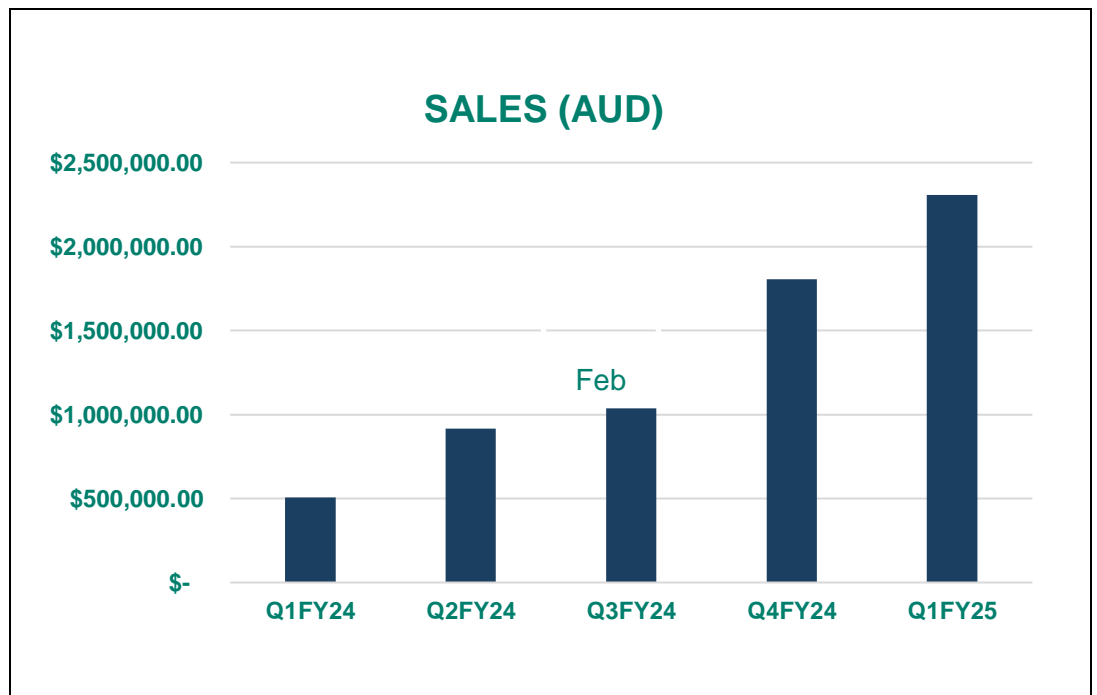
The Calmer Co. International

Sales are growing rapidly

Good marketing has resulted in substantially rising sales all throughout FY24.

Good marketing has resulted in substantially rising sales all throughout FY24 (Figure 8). In the June 2024 quarter sales were A\$1.8m as opposed to just \$0.5m in the September 2023 quarter. On an annual basis, the company recorded \$4.3m in FY24, up 139% from the year before (Figure 9). FY25 has begun on a solid note with 2.3m in sales reported in Q1 already surpassing half of the FY24 sales in one quarter, a 28% increase on the prior quarter and a more than 300% increase on the prior corresponding quarter. This strong growth trajectory potentially puts The Calmer Co. on the path to being cash flow break even in FY26. Moreover, the company has built up a customer database of >50,000 people and has turned many of them into paying customers.

Figure 8: Calmer Co sales month by quarter



Source: Company

Looking specifically at a breakdown of Fiji Kava’s revenues, there was growth in all geographical markets and most of the major product lines (Figure 9). Total sales in Australia increased more than 5 times from \$436,294 to \$2.4m. In ‘Other Markets’, sales increased over 50% from \$982,444 to \$1.5m. Total drinking products increased more than 3-fold from \$691,654 to \$2.6m. The only segment that decreased was capsules, which can be put down to the company’s pivot away from capsules in the US market.



The Calmer Co. International

Figure 9: Breakdown of Calmer Co's annual sales

| 2024 | Reportable Segments | | | | Other | Total |
|---|---------------------|----------|---------------|---------|-------|-----------|
| | Fiji Kava Trading | SPE Fiji | Fiji Kava USA | Danodan | | |
| Geographical Markets | | | | | | |
| Australia | 2,428,166 | - | - | - | - | 2,428,166 |
| Fiji | - | 317,615 | - | - | - | 317,615 |
| Other | - | - | 1,235,929 | 276,483 | 4,647 | 1,517,059 |
| | 2,428,166 | 317,615 | 1,235,929 | 276,483 | 4,647 | 4,262,840 |
| Major product lines | | | | | | |
| Drinking | 2,035,446 | 246,737 | 299,462 | 28,198 | - | 2,609,843 |
| Capsules | 255,074 | 27,953 | 24,525 | 2481 | - | 310,032 |
| Other | 110,859 | 23,342 | 911,943 | 244,086 | - | 1,290,229 |
| Other Revenue | 26,788 | 19,583 | - | 1718 | 4,647 | 52,736 |
| External Revenue as reported in Note 7 | 2,428,166 | 317,615 | 1,235,929 | 276,483 | 4,647 | 4,262,840 |
| 2023 | Reportable Segments | | | | Other | Total |
| | Fiji Kava Trading | SPE Fiji | Fiji Kava USA | Danodan | | |
| Geographical Markets | | | | | | |
| Australia | 436,294 | - | - | - | - | 436,294 |
| Fiji | - | 446,770 | - | - | - | 446,770 |
| Other | - | - | 691,349 | 290,084 | 1,011 | 982,444 |
| | 436,294 | 446,770 | 691,349 | 290,084 | 1,011 | 1,865,508 |
| Major product lines | | | | | | |
| Drinking | 233,895 | 374,075 | 83,684 | - | - | 691,654 |
| Capsules | 188,817 | 5,757 | 593,521 | - | - | 788,095 |
| Other | 2,050 | - | 14,144 | 290,084 | 784 | 307,062 |
| Other Revenue | 11,532 | 66,938 | - | - | 227 | 78,697 |
| External Revenue as reported in Note 7 | 436,294 | 446,770 | 691,349 | 290,084 | 1,011 | 1,865,508 |

Source: Company



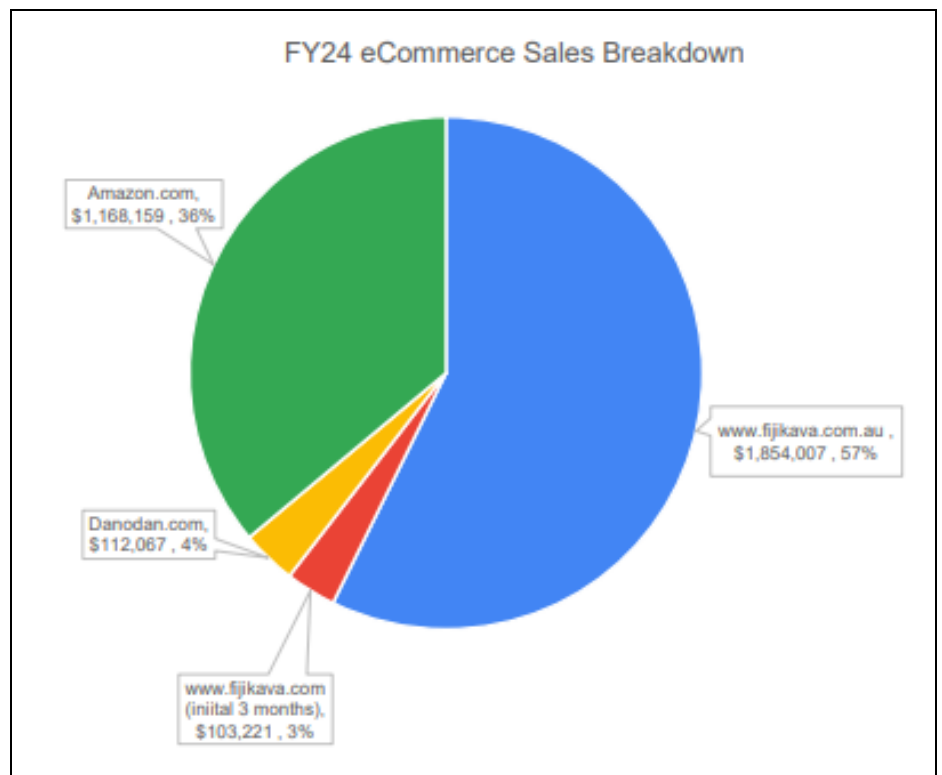
The Calmer Co. International

76% of Calmer Co.'s FY24 sales came from eCommerce - \$3.25m.

eCommerce provides a boost

76% of Calmer Co.'s FY24 sales came from eCommerce - \$3.25m (Figure 10). More than half of eCommerce sales, and nearly half of total sales came directly from the company's own Australian website for its Fiji Kava brand. Consumers can shop directly for Fiji Kava's powders on www.fjikava.com.au, or on the company's Shopify platform (which counts under Fiji Kava's own websites). A further \$1.17m in sales came from Amazon (representing 27% of total sales and 36% of eCommerce sales). The balance is from Fiji Kava's non-Australian website and from Danodan.

Figure 10: Calmer Co's eCommerce sales breakdown



Source: Company



The Calmer Co. International

The opportunity facing Calmer Co and the catalysts for achieving it

We see three key drivers of growth for Calmer Co.

We see three key drivers of growth for Calmer Co:

- A growing awareness of the health benefits of kava
- New products and new jurisdictions for the company
- A decrease in alcohol consumption and its replacement by kava.

Awareness of the health benefits of kava

In anxiety and insomnia, the company hopes to position its products as an alternative to benzodiazepines, which remain a US\$15bn market opportunity globally and where Noble kava may be a safer and non-addictive alternative to opioid-based medicines. As we outlined in greater detail in our September 2024 initiation report on Paradigm Biopharmaceuticals (ASX: PAR), opioids are often seen as a 'quick fix' to conditions causing joint pain like osteoarthritis but provide only a short-term benefit with no long-term benefit and a variety of health problems. They are often taken for general anxiety too, but again cause more problems than they solve.

Anxiety is a large market opportunity. An estimated 2.7% of US adults will have had Generalized Anxiety Disorder in the past 12 months. And this is just the tip of the iceberg in relation to people suffering from anxiety generally. 61% of people report feeling both stressed and anxious and 37% of adults report fatigue because of stress. This worry is even more prevalent amongst younger generations – 3 times more younger people feel that they cannot manage their stress compared to older people. Calmer Co has, and will continue, to highlight the effect on stress that kava can have in its marketing – as evident in its recent advertising campaign for Taki Mai (Figure 11).

The increasing acceptance around the world of cannabis in medicine, after so many decades of its stigmatisation, suggests that kava could have a similar path. But while the cannabis market is intensely competitive with several players, Calmer Co is one of the few companies globally that is in this space, already has products on the market and a significantly large moat.



Figure 11: Calmer Co's marketing campaigns



Source: Company

New products and in new jurisdictions

The company has indicated future products that could grow sales in the future. One of these is flavoured kava shots which are under development for launch in the USA. Another is flavour enhancing boosters (beginning with Mango and Peach). These are currently launching in Australia alongside kava drinking accessories including a cordless kava blender.

The Calmer Co. believes that Europe and the US are important markets, the former once the import ban comes off. Interestingly, kava as a social beverage is very popular in the US. The Calmer Co. estimates that there are now more than 450 kava bars in America, with a significant concentration in the state of Florida. A good example of a kava bar is Miami Kava & Coffee, which has three bars in the metro area of that city.



Kava replacing alcohol

Kava has potential to become an alternative to alcohol. Indeed, at times it is already used as such – back in the 1980s was introduced to communities in the north of Australia for this purpose⁸. The opportunity for Calmer Co. lies in the decline in the use of alcohol and the rise of low to no alcoholic beverages.

Alcohol use is declining, particularly across younger generations. In fact, younger generations have almost entirely been responsible for the overall decline. Consider that the 2019 National Drug Strategy Household Survey found only 0.9% of people aged 15 to 24 in Australia drank daily (the lowest of any age group), 21.4% drank weekly and 18.8% drank less than monthly. Moreover, 44% of Gen Z Australians reported they were drinking less during COVID lockdowns, more than double the rate for *any other* generation⁹. There are similar trends in other jurisdictions including the USA, the UK, Scandinavia, New Zealand and China.

This does not mean that they are content to settle for water, fruit juices or soft drinks at social occasions. The decline in alcohol consumption has led to the rise of alcohol-free drinks, because consumers want a drink to mark the occasion, but not a drink that offers the drawbacks alcoholic drinks do. The IWSR, the benchmark data source for the alcoholic beverage industry, has estimated that the no and low-alcohol industry was US\$11bn. Alcohol companies have diversified into this segment to keep up with consumer preferences¹⁰.

It is in this context that we see an opportunity for kava. Consider the following facts about kava, some of which we have already considered:

- It is already a drink for special occasions in the Pacific Islands and amongst Pacific Islander peoples who have migrated to other countries (when and where kava importation has been permitted of course),
- Consumers are seeking beverages that support their wellness goals. Kava has relaxing properties, but without the negative side effects of alcohol,
- Drinking kava offers the chance for consumers to be more culturally aware by experiencing another culture,
- The ways for consumers to access Kava products (Calmer Co.'s and others) is continuing to grow. There are an increasing number of 'kava bars' in Western jurisdictions. Specifically, over 240 in the USA and a handful in Australia¹¹. Moreover, products are available in supermarkets (Calmer Co.'s are in Coles).

For all those reasons, we see a big opportunity for kava to obtain a market share in the low to no-alcohol beverage market. And Calmer Co., as one of the leading kava companies and an aspirant to become the most dominant kava company in the world, would be poised to benefit.

⁸ <https://adf.org.au/drug-facts/kava/#:~:text=Kava%20was%20introduced%20to%20the,way%20that%20alcohol%20is%20used.>

⁹ <https://www.bbc.com/worklife/article/20220920-why-gen-zers-are-growing-up-sober-curious>

¹⁰ <https://www.forbes.com/sites/ariannajohnson/2024/05/02/heavy-drinking-young-adults-are-cutting-back-study-suggests-heres-how-the-alcohol-industry-is-still-cashing-in/>

¹¹ <https://kavaaustralia.com.au/kava-bars-in-australia/>



The Calmer Co. International

Calmer Co.'s board of directors

The company's current board and leadership is as follows (Figure 12):

Figure 12: Calmer Fiji Kava's leadership composition

| Board of Directors | |
|---|---|
| Name and Designation | Profile |
| James Dack Non-Executive Chairman | <p>Mr Dack started in the real estate industry as a founding partner in real estate agency brands in Australia. He left the real estate industry in 2014 to pursue other ventures and began his own private investment company where he has taken a position in many entities including public companies listed locally. He has experience in the public sector, where he started his career as a porter at St Vincent's Hospital before being responsible for coordinating the entire NSW Public Hospital Payroll System in the industrial relations division of the Department of Health.</p> |
| Anthony Noble Chief Executive Officer and Managing Director | <p>Formerly, C.E.O. Australian Biotherapeutics, and spent more than 10 years at Soho Flordis International (SFI) which includes Klair Labs, Prothera & Complementary Prescriptions (USA), Ginsana SA (Switzerland), Flordis (Australia) and Potters Herbs & Equazen (UK). Anthony held the roles of Global Head of Innovation, Global Head of B2B, Head of North Asia and Managing Director of SFI Research Pty Ltd, the group's innovation incubator and investment company. Mr Noble has a PhD in Cell Biology and an MBA from AGSM including study at the Wharton School (U Penn)</p> |
| Griffon Emose Independent Non-Executive Director | <p>A Fiji citizen, Mr Emose is the Managing Director of Kontiki Capital. He was previously the Manager Public Awareness & Investor Education at the Capital Markets Development Authority. He is licensed by the RBF as an Investment Adviser Representative and serves as a Director of the South Pacific Stock Exchange and on several other Boards. Mr Emose graduated with a Bachelor of Commerce from the University of Auckland. He is a member of the CFA Institute and earned the CFA Charter in 2005.</p> |
| Zane Yoshida Founder and Executive Director | <p>Mr Yoshida is an experienced start up entrepreneur launching companies from R&D through to commercialisation and scale across Asia, the United States, and the Pacific. As the former co-founder and Managing Director of Styrotex (Asia Pacific), Zane successfully commercialized innovative technology in the plastics packaging industry which he also co patented. He established a joint venture with a Malaysian public company and established companies in Shanghai and Suzhou through strategic acquisitions to manufacture products for supply to multinational electronics companies throughout China.</p> |
| James Tonkin Non-Executive Director | <p>Mr Tonkin is a 40 year veteran, is a private sector brand marketing and beverage development professional who has designed and implemented national infrastructure for his clients in the food and beverage industry. In the last 15 years, Tonkin has promoted brand and marketing programs for many clients in the bottled water and functional food/beverage industries. His expertise spans the gamut from domestic cheese to potato chips, fortified pet waters to nutraceutical functional and enhanced beverages.</p> |
| Pravinesh Lala Chief Financial Officer | <p>Mr Lala has over 20 years' success in leading financial management activities at organizations across Fiji, New Zealand, and Australia in shipping and logistics, agricultural supply chains and manufacturing companies. Before joining Fiji Kava Ltd, he worked with Red Bull NZ as well as Nutrano Produce Group and Neptune Shipping.</p> |

Source: Company



The Calmer Co. International

Our valuation of Calmer Co.

We value Calmer Co at \$56.1m in a base case scenario and \$72.5m in an optimistic (or bull) case scenario – equating to 1.8c per share and 2.4c per share respectively under the current number of (diluted) shares on issue. We have used a Discounted Cash Flow (DCF) approach, and our key assumptions are as follows:

- **Revenue model.** The biggest driver of revenues is the company's drinking powder range, responsible for \$2.61m of the company's \$4.26m FY24 sales. Notwithstanding that the company offers several different sizes at different price points, we have gone with an average price of A\$70 per packet because that has been the average basket value in the past year¹² and we think it would be too painstaking and arguably unproductive an exercise to break down sales for each different size. We assume cost inflation of 2.5% per annum.
We have assumed the company sells 2,000 packages a week in FY25 on a consistent basis, and that this figure grows rapidly over FY26 and FY27 (by 40% and 30% respectively) before slowing down. By FY34, we assume just over 8,000 per week are sold.
- **Costs and margins.** Calmer Co. made a 50% gross profit margin in FY24 and we keep this assumption for FY25 before gradually decreasing to 60% over the following years. Our model sees the company reach operating profitability in FY26 and NPAT profitability in FY27. By FY30, the company has profit margins of consistently over 20%. We assume slightly above inflation growth for consulting, professional, general and administrative expenses, but 10% growth in sales and marketing expenses.
- **Funding.** We have assumed the company raises a further \$5.5m in financing over the next couple of years and that this is obtained via debt finance – being gradually repaid over the life of our model. But for debt proceeds, our model shows the company to have a negative cash balance of ~\$600k in FY25. But with this financing secured, the company is cash flow positive in FY26.
- **Discount rate.** We arrive at a WACC of 11.9%. This may seem an overly optimistic WACC for a company like Calmer Co., but it is reduced by a higher proportion of debt than is usual for a micro-cap business. Our 11.9% WACC reflects a 16% cost of equity weighted at 78.4% and a 21.6% weight of debt with a 2.8% after-tax cost. This is as per our assumption above that the company undertakes additional debt finance. Our cost of equity is derived from a risk-free rate of return of 4%, an equity premium of 8% (our standard rate of 5% with an additional risk-premium of 3%) and a 1.5x beta.
- **Tax.** We assume a 30% corporate tax rate.

Our bull case assumes a faster revenue growth over the first four years of our model, assuming 2,250 sales per week in FY25 and then that figure rises by 40% in FY26, before slowing to 10% by FY30.

Figure 13 shows our valuation summary for Calmer Co and the upside potential of the stock. Figure 14 shows a sensitivity of our share price to various WACCs.

¹² P.12 of the company's annual report



Figure 13: DCF calculation

| Valuation (A\$m) | Base Case | Bull case |
|----------------------------------|--------------|--------------|
| Present Value of FCF | 19.3 | 32.5 |
| Present Value of Terminal Value | 39.3 | 42.5 |
| Enterprise Value (A\$ m) | 58.5 | 74.9 |
| Net (debt) cash | (2.4) | (2.4) |
| Equity value (A\$ m) | 56.1 | 72/5 |
| Share outstanding (Diluted) | 3,038 | 3,038 |
| Implied price (A\$ cents) | 0.018 | 0.024 |
| Current price (A\$ cents) | 0.008 | 0.008 |
| Upside (%) | 130.9% | 198.3% |

Source: Pitt Street Research

Figure 14: Sensitivity analysis of DCF calculation (base case)

| | | WACC | | | | | | |
|---------------|-------|-------|-------|-------|--------------|-------|-------|-------|
| | | 8.8% | 9.8% | 10.8% | 11.8% | 12.8% | 13.8% | 14.8% |
| Terminal Rate | 0.5% | 0.026 | 0.022 | 0.019 | 0.017 | 0.015 | 0.013 | 0.012 |
| | 1.0% | 0.027 | 0.023 | 0.020 | 0.017 | 0.015 | 0.013 | 0.012 |
| | 1.5% | 0.028 | 0.024 | 0.021 | 0.018 | 0.016 | 0.014 | 0.012 |
| | 2.00% | 0.030 | 0.025 | 0.021 | 0.018 | 0.016 | 0.014 | 0.013 |
| | 2.5% | 0.032 | 0.027 | 0.022 | 0.019 | 0.017 | 0.015 | 0.013 |
| | 3.0% | 0.034 | 0.028 | 0.024 | 0.020 | 0.017 | 0.015 | 0.013 |
| | 3.5% | 0.037 | 0.030 | 0.025 | 0.021 | 0.018 | 0.016 | 0.014 |

Source: Pitt Street Research

Catalysts for a re-rating

We foresee the company re-rating if it can continue to grow its sales at the rapid pace it has and it achieves its target of cashflow break even by FY26. As outlined in our previous sections, we believe this can occur through:

- Changes in attitudes towards kava by consumers and regulators,
- New product launches,
- The company's facility upgrade running to budget and then enabling the company to meet consumer demand in a cost-effective way.



Risks

We see the following key risks to our investment thesis:

- **Funding risk:** Calmer Co may require further external funding to support its development plans. Indeed, we assume that even with rapid revenue growth, it will need at least A\$5m to avoid a negative cash balance. Raising funds on favourable terms (both debt and equity) along with timeliness could represent a key challenge for the company. Even if capital is raised, and on favourable terms, this will be dilutive to existing shareholders if it is equity finance.
- **Regulatory risk.** The company's ability to commercialise its product is contingent on regulators maintaining approval where it already exists (including meeting ongoing regulatory compliance requirements) and giving approval to new products. A failure to give new products approval (in the form of licenses and permits), or even a withdrawal of approval, could be catastrophic to its future ambitions. Indeed, as we depicted in this report, historical precedent from the 1980s shows that even though kava is popular, regulation on kava can quickly kill consumer demand.
- **Cost inflation risk.** The company will need to ensure that its costs grow slower than its revenues, so that it meets its target of cash flow break even by FY26. A failure to reach this target would damage investor confidence in the company. Crucial to the company maintaining cost inflation is ensuring the upgrades to its facility, commencing in November 2024, stay within budget.
- **Commercial risk.** There is the risk that the company may fail to execute its commercial objectives for a variety of reasons such as:
 - i) Supply chain issues,
 - ii) Competition including other kava producers and the threat of kava substitutes, and
 - iii) A lack of Market acceptance.
- **Key personnel risk:** There is the risk the company may lose key personnel and be unable to replace them and/or their contribution to the business.



Appendix I – Share capital

| Class | Number | % of share capital |
|--------------------------------|----------------------|--------------------|
| Shares on issue | 2,201,386,394 | 72% |
| Options (quoted) | 776,485,067 | 26% |
| Options (unquoted) | 60,325,200 | 2% |
| Diluted shares on issue | 3,038,196,661 | |

Source: Company

Appendix II – Literature on the health benefits of kava

What literature is available on the health benefits of kava? We identified many papers. The following are particularly relevant:

- Connor et. al. (2001), *Adverse-effect profile of kava*. CNS Spectr. 2001 Oct;6(10):848, 850-3.
- Wheatley (2001), *Stress-induced insomnia treated with kava and valerian: singly and in combination*. Hum Psychopharmacol. 2001 Jun;16(4):353-356.
- Cairney et. al. (2002), *The neurobehavioural effects of kava*. Aust N Z J Psychiatry. 2002 Oct;36(5):657-62.
- Stevinson et. al. (2002), *A systematic review of the safety of kava extract in the treatment of anxiety*. Drug Saf. 2002;25(4):251-61.
- Sarris et. al. (2009), *The Kava Anxiety Depression Spectrum Study (KADSS): a randomized, placebo-controlled crossover trial using an aqueous extract of Piper methysticum*. Psychopharmacology (Berl). 2009 Aug;205(3):399-407. Epub 2009 May 9.
- Sarris et. al. (2011). *Kava: a comprehensive review of efficacy, safety, and psychopharmacology*. Aust N Z J Psychiatry. 2011 Jan;45(1):27-35. Epub 2010 Nov 15.
- Teschke et. al. (2011), *Kava hepatotoxicity solution: A six-point plan for new kava standardization*. Phytomedicine. 2011 Jan 15;18(2-3):96-103. Epub 2010 Nov 26.
- Teschke et. al. (2011), *Kava, the anxiolytic herb: back to basics to prevent liver injury?* Br J Clin Pharmacol. 2011 Mar; 71(3): 445–448.
- Savage et. al. (2015), *Kava for the treatment of generalised anxiety disorder (K-GAD): study protocol for a randomised controlled trial*. Trials. 2015 Nov 2;16:493.
- Ooi et. al, (2018), *Kava for Generalized Anxiety Disorder: A review of current evidence*. J Altern Complement Med. 2018 Aug;24(8):770-780 Epub 2018 Apr



Appendix III – Glossary

Anxiety – An emotion in reaction to stress, in general terms.

Benzodiazepine – Depressant drugs that slow down the messages between the brain and the body.

Bilio – A coconut shell where kava is poured into in ‘Taki’ rituals.

CBD -

Foreign Investment Registration Certificate – A certificate issued by Fijian authorities permitting a company to undertake commercial agriculture.

Gamma-aminobutyric acid (GABA) – An inhibitory neurotransmitter that can counteract stress.

Hamilton Anxiety Rating Scale (HAMA) – A rating scale developed to measure the severity of anxiety symptoms¹³.

Insomnia – A sleep disorder that makes sufferers find it hard to fall asleep or stay asleep.

IWSR – A global authority on beverage alcohol data and intelligence. The acronym stands for The International Wine and Spirits Record

Kava - a crop indigenous to the Pacific Islands and is traditionally consumed in beverage form.

Kavalactones – Active chemical compounds in kava that provide a general ‘kick’ to consumers

Nakamals – A special meeting place dedicated for kava preparation.

Natural and Non-Prescription Health Products Directorate – Canada’s regulator for natural health products.

Opioids – A class of drugs that derive from, or mimic, natural substances found in the opium poppy plant.

Piper methysticum – A kava plant from which the herb kava is derived from.

Taki – A ritual where kava is poured into a coconut shell cup and presented to guests at a special occasion.

Tu Dei – Intoxicating or wild kava. It may have a worse hepatotoxic profile than Noble kava.

Vale ni kavas – A special meeting place dedicated for kava consumption.

¹³ <https://dcf.psychiatry.ufl.edu/files/2011/05/HAMILTON-ANXIETY.pdf>



Appendix IV – Analysts’ 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 speciality 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.
- Since 2018, Stuart has led Pitt Street Research’s Resources Sector franchise, spearheading research on both mining and energy 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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