PITT STREET RESEARCH

The Calmer Co. International

Evolving into the world's most dominant kava company

Share Price: A$0.006

ASX: CCO

Sector: Consumer

18 February 2024

The Calmer Co. International (ASX: CCO), the ASX's only listed kava company, is aspiring to become the world's most predominant kava company. It has recorded substantial sales growth during the last couple of years and this has continued so far in 1HY25.

FY24 sales have been exceeded already in FY25

Calmer Co. finished FY24 with $4.3m in sales, a figure that was more than double FY23. In the first 6 months of FY25, the company has already surpassed FY24's figures and recorded an annualised revenue rate of $10m in the month of October 2024. The company has seen sales growth through all its channels and expects continued growth as it expands its product range and into new jurisdictions. Calmer Co. is currently acquiring its facility in the Fijian town of Navua after several years of leasing the facilities and is investing >F$4m into its expansion to meet the anticipated demand in the years ahead. Reaching profitability is also a priority for CCO and here it is making progress, with each succeeding quarter showing a lower cash burn.

There are several catalysts for further growth

As one of the most dominant companies in the kava space, Calmer Co.'s fate is intertwined with the growth of the kava industry generally and has been deriving the benefits. For several years, kava was almost exclusively confined to the South Pacific with major impediments to its exportation. But there has been significant liberalisation in the Western world, and a growing awareness of its health benefits, particularly against anxiety and insomnia.

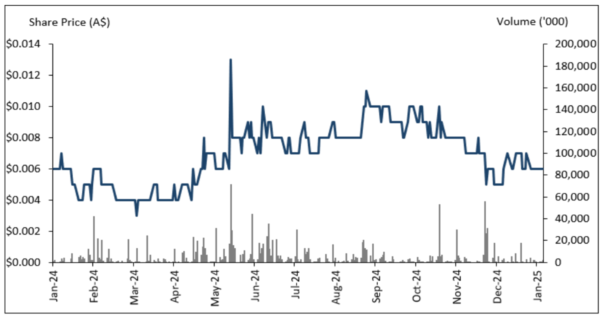
Valuation of A$0.016-$0.02 per share

We have tweaked our valuation of CCO to account for the recent capital raising, the company's growth in recent months and our updated assumptions as to the company's capital needs considering those factors. Moreover, our discount rate has changed considering our debt-equity mix assumptions. Our valuation of Calmer Co on a per share value is $0.016 in our base case and A$0.02 in our bull case ($0.018 and $0.024 previously), but CCO's market capitalisation is $59.5m in our base case and $77.5m in our bull case respectively, up from $56.1m and $72.1m respectively. Please see page 8 for further details and page 9 for the key risks.

Market cap. (A$ m)	15.3
# shares outstanding (m)	2,541.9
# shares fully diluted (m)	3,815.2
Market cap ful. dil. (A$ m)	22.9
Free float	100%
52-week high/low (A$)	0.013 / 0.003
Avg. 12M daily volume ('1000)	6,132.8
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$)	0.016-0.020
WACC	11.6%
Assumed terminal growth rate	2%

Source: Pitt Street Research

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

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Recap of Calmer Co., its evolution and the kava opportunity before it

The Calmer Co. is a different company than when it first listed, and the results speak for themselves. Its FY24 sales were 142% ahead of FY23 and it has already surpassed FY24 in just half of FY25.

Calmer Co. is a kava company that was founded in 2014 as Fiji Kava to acquire a business founded by Zane Yoshida which developed and marketed kava products. The company went public in 2018 and after a few unsuccessful years, got its act together, focusing on online distribution and emphasising kava as a beverage rather than as a medicine-style capsule. The company's FY24 sales were $4.35m - 142% ahead of FY23 - and it has already surpassed FY24's sales in the first two quarters of FY25, recording $4.4m.

Kava: The green gold of the Pacific?

These days Kava alludes to the beverage form of kava, but kava itself is a herb derived from the root of the kava plant *Piper methysticum*. Kava is a ceremonial drink in Fiji and the Pacific islands for commemorating significant events like weddings, funerals, and the birth of children. Given the cultural, social and economic significance, kava has been called the 'Green Gold of the Pacific'.

In recent years, thanks to the work of companies such as the Calmer Co, kava has reached the Western world. 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; and academic research has found this to be the case. As we outlined in further detail in our initiation report, a 2013 trial at the University of Melbourne found that kava was effective in reducing short-term anxiety in 75 patients diagnosed with Generalised Anxiety Disorder. The investigators found that the effect on GABA transporters was responsible for the reduction.

The legal situation

Kava's properties meant that there were some years of stigmatisation and even prohibitions, but these are gradually being overcome. In Australia, kava is permitted to be imported, strictly subject to conditions including permits being issued by the Office of Drug Control for each consignment and the kava being a form permitted under biosecurity laws. 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. As for Europe, it has had outright bans in the past and even though only Poland still has a ban on sales (but not possession), many other countries still have some regulation.

From the perspective of Fiji, regulators require permission for kava to be exported. To this end, The Calmer Co has a Foreign Investment Registration Certificate which permits the company to conduct and undertake commercial agriculture for the purposes of cultivating kava. 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.

Calmer Co's products and its business model

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

Calmer Co. has 3 brands: **Fiji Kava**, **Taki Mai** and **Danodan Hempworks**. Fiji Kava 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 1). The company also sells kava 'shots' under the Taki Mai brand (Figure 2) 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. 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 3).

Figure 1: Fiji Kava products

Source: Company

Figure 2: Taki Mai

Source: Company

Figure 3: Danodan Hempworks

Source: Company

The Calmer Co.'s sales channels include:

- its own online channels (particularly the websites for its own brands and the company's store on Shopify),
- Coles supermarkets in Australia,
- Tourist channel markets in Fiji including airports and high-end hotel chains.
- Amazon, Walmart and Shopify in North America; and
- Channels in China including Tmall.

How The Calmer Co. sources and manufactures its products

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.

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, approximately 20 km from the Fijian capital of Suva on the main island of Viti Levu. Calmer Co's Navua facility comprises of 5,856m^2 freehold land and 1,930m^2 of internal floorspace including office space, a laboratory, two cold rooms, a blast freezer and mezzanine level storage. This facility has up until now been leased, but Calmer Co. has signed a binding deal to purchase Navua from the current owners – for FJ$4.4m.

Calmer Co 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. The company's processes are HACCP[1] and GMP[2] compliant.

[1] Hazard Analysis and Critical Control Points – a food safety and risk assessment plan.
[2] Good Manufacturing Practice

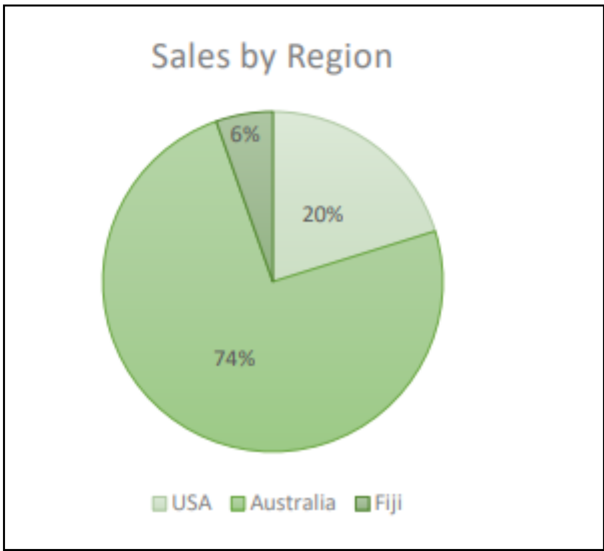
A terrific first half of FY25

Calmer reported $4.4m in sales during the first half of FY25 (1H25) which was quadruple 1H24 sales and a level that surpassed the full year sales in FY24.

Calmer Co has released its quarterly report for the three-month period ended 31 December 2024 (2Q25). The company reported $4.4m in sales during the first half of FY25 (1H25) which was quadruple 1H24 sales and a level that surpassed the full year sales in FY24. In October alone, the company sold $862k, which was a record month.

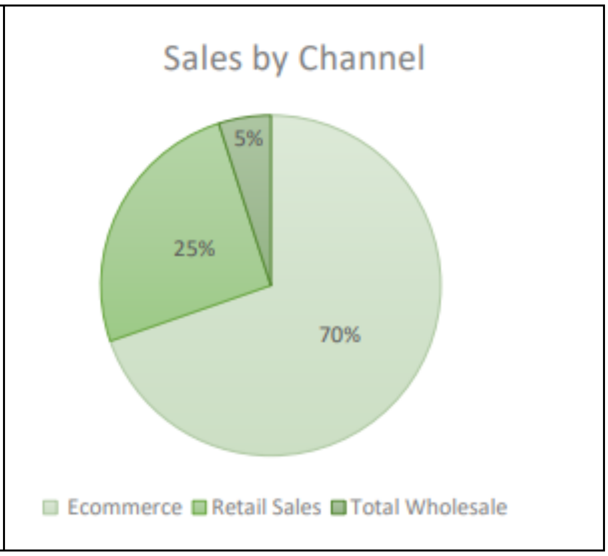
Australia and New Zealand were responsible for nearly three-quarters of sales (Figure 4), although the proportion of sales in the USA is expected to grow in the second half of FY25 as Taki Mai kava shots and stick packs launch over there. 70% of total sales came from eCommerce sales with Calmer Co.'s own proprietary channels (the individual websites for its brands) and its third-party platforms including Shopify, Amazon and Danodan (Figure 5). The 25% of sales in retail include tourist channels in Fiji and Coles stores in Australia. The sales recorded in Coles stores have been pleasing because sales are now consistently above $25k per day, and sales have continued to grow as advertising spend for that channel moderates so marketing for other channels can be prioritised.

Figure 4: Fiji Kava sales by region



Source: Company

Figure 5: Fiji Kava sales by channel



Source: Company

CCO's bottom line has improved too. The company reduced net cash used in operations by half, after inventory was accounted for, with cash burn down to $142k per month, down from $284k per month in Q1 of FY25. Total cash used in operations for 2Q25 (after adjusting for inventory) was 50% lower than in 1Q25.

Calmer Co is well positioned for 2HY25

Catalysts for growth include the launch of Taki Mai products in the USA, and conversion of one-off online customers to weekly Coles customers

Calmer Co reached $10m in annualised revenue in October 2024 and will likely surpass that annual figure if the current growth trends continue, particularly in the US. As we noted above, the launch of Taki Mai products are expected to be a particularly strong catalyst for the company's total revenue growth. Sales from Coles are expected to be important too – the company has observed that customers who initially acquire kava products online as a one-off, eventually make it a part of their weekly grocery shop, which explains the sales growth alluded to above. And finally, the company hopes to expand into the USA, planning to launch its own Shopify store and the Taki Mai shots in 5 different flavours.

Key to supporting the company's growth ambitions will be the upgrade at Navua, for which the company raised $1.8m in November 2024. It has >$2.2m in inventory to ensure that sales will not be interrupted during the facility upgrade which is set to be completed by the end of FY25. This will result in operating and manufacturing costs temporarily decreasing during the current quarter. Once the facility upgrade is complete, the company will be able to process 25MT of kava per week.

Catalysts for longer-term growth

Our valuation thesis is not only based upon the company's top and bottom-line growth (driven through expansion of its offerings and into new markets, as well as increased operational efficiency and productivity), but two other societal trends.

The first of these is a growing awareness of the health benefits of kava, particularly towards anxiety, not to mention the growing presence of these conditions. 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[3]. 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.

We also see the potential for kava to make its mark as an alternative to alcohol. Alcohol use is declining, particularly across younger generations in Western jurisdictions[4]. 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 market was worth US$11bn p.a.

With all that we have outlined about kava including that it is already a drink for special occasions in the Pacific Islands and among Pacific Islanders who have migrated to other countries; kava's relaxing properties and its growing availability, we see a big opportunity for kava to be an alternative to alcoholic drinks.

[3] Please see p.16 of our initiation report on Calmer Co.
[4] See p.18 of our initiation report on Calmer Co.

There's now a 'Kava Development Strategy'

In August 2024, the Pacific Islands Forum (PIF) – an intergovernmental organisation of Pacific Islands governments – launched the Pacific Regional Kava Development Strategy (RKDS).

In August 2024, the Pacific Islands Forum (PIF) – an intergovernmental organisation of Pacific Islands governments – launched the Pacific Regional Kava Development Strategy (RKDS). This strategy aims to protect the cultural significance of kava, but also promoting its economic potential. Its key objectives include to:

- **Standardise Kava Quality** by implementing consistent quality standards across the region;
- **Enhance Market Access** by addressing trade barriers and promoting the unique qualities of Pacific kava,
- **Promoting Sustainable Practices** to ensure the long-term viability of the kava industry,
- **Protecting Culture Heritage** by preventing kava's misappropriation by external entities, and
- **Securing Intellectual Property Rights** by collaborating with the World Intellectual Property Organisation (WIPO) to obtain Geographical Indications (GI) status for kava, recognising and protecting its unique quality and origin on the global market.

We expect the RKDS to be a positive for Calmer Co. and for the entire industry. This strategy has set out key goals to standardise kava quality across the region, ensure products meet international standards, and promote sustainable farming practices. Additionally, it seeks to enhance market access and foster regional collaboration, enabling Pacific producers to share knowledge, resources, and best practices.

Our valuation of Calmer Co.: $0.016-0.02 per share

We previously valued CCO 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 number of (diluted) shares on issue (3,038m shares) at the time of our initiation report in early November 2024. We used a Discounted Cash Flow (DCF) approach, and we will reiterate our assumption shortly.

The recent capital raising has increased the number of diluted shares on issue, but the fundraising (along with the company's faster sales growth and cost reductions) has also made our original financing assumptions obsolete. With $3.3m in financing proceeds so far in FY25 ($1.8m in equity and $1.5m in debt), we think the company will not need further fundraising to maintain a positive cash flow balance barring unexpected cost blowouts or if it wanted to open new manufacturing and processing facilities in the future. Our discount rate falls to 11.6%, down from 11.9% previously. Our debt-equity split is now 83.4-16.6% and we have reduced our equity premium from 8% to 7%.

Our updated valuation of Calmer Co is $0.016 in our base case and A$0.02 in our bull case. Equating to $59.5m in our base case and $77.5m in our bull case.

Our other core assumptions from our initiation report remain intact.

Our valuation of Calmer Co on a per share value is $0.016 in our base case and A$0.02 in our bull case ($0.018 and $0.024 previously), but CCO's market capitalisation is $59.5m in our base case and $77.5m in our bull case respectively, up from $56.1m and $72.1m respectively (Figure 6).

Figure 6: Our DCF calculation

Valuation (A$m)	Base Case	Bull case
Present Value of FCF	18.7	33.5
Present Value of Terminal Value	40.0	43.2
Enterprise Value (A$ m)	**58.7**	**76.7**
Net (debt) cash	0.8	0.8
Equity value (A$ m)	**59.5**	**77.5**
Share outstanding (Diluted)	3,815	3,815
Implied price (A$ cents)	**0.016**	**0.020**
Current price (A$ cents)	0.006	0.006
Upside (%)	160.0%	238.6%

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. 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.** CCO's ability to commercialise its products depend on regulators maintaining approval where it already exists and giving approval to new products. A failure to give new products approval (through licenses and permits), or even a withdrawal of approval, could be catastrophic to its future ambitions. Indeed, 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 supply chain issues, Competition (including other kava producers and the threat of kava substitutes), and 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 – Calmer Co's Updated Capital Structure

Class	Number	%
Ordinary Shares	2,541,891,740	66.6%
Options (quoted)	913,784,413	24.0%
Options (unquoted)	329,496,739	8.6%
Planned Shares	30,000,000	0.8%
Total	**3,815,172,892**	

Source: Appendix 2A submitted to ASX on 14 January 2025[5]

Appendix II – 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

[5] https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02902921-6A1246859

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