



31 July 2017

Skin Elements Limited ASX ANNOUNCEMENT

ASX CODE : SKN

Quarterly Activity Report - Period ending 30 June 2017

Australian natural skin care company Skin Elements Limited (ASX: SKN) (Skin Elements, the Company) is pleased to present its Quarterly Activities Report for the period ending 30 June 2017.

Skin Elements is an Australian owned and operated skin care company focused on the development, manufacture and sales of natural and organic skin care products – including the market leading Soléo Organics 100% natural and organic sunscreen, and the McArthur Skincare range of therapeutic and cosmetic pawpaw based skin care products. It aims to expand its product range, and sales and distribution footprint to position the Company as a leading, recognised national and international skin care company.

QUARTER HIGHLIGHTS

- **Completion of acquisition of McArthur Skincare, a leading Australian natural skin care business:** Acquisition completed and McArthur business and product range integrated into Skin Elements.
- **Production run:** Baxter Laboratories, the Company's preferred manufacturing partner, delivered a 10,000 tube production run of the Soléo Organics sunscreen for orders from Japan and Slovenia.
- **Sales and operations update:** New sales in the quarter included the US market and Hong Kong, plus Australia via distributors and direct online sales. Marketing programs and plans for product range expansion are ongoing.
- **Corporate:** the Company's corporate and operational head office was expanded by 360m² to provide an enhanced corporate environment for a larger personnel team post the McArthur Skincare acquisition.

JUNE QUARTER COMMENTARY

In the June 2017 quarter Skin Elements continued to execute its business model and growth strategy – to position itself as a leading global supplier of natural and organic skin care products. The Company's activities in the quarter were highlighted by the completion of the acquisition of the McArthur Skincare business. This represented a highly complementary and value accretive acquisition, which will position Skin Elements to deliver substantial turnover and sales from the McArthur Skincare product range. A core focus for the Company during the quarter was on the successful integration of the McArthur Skincare business model, product range and key personnel into the Company. This integration period required a significant allocation of management time and resources, and is now largely complete, paving the way for the Company to commence deriving major benefit from the acquisition over coming quarters.

The Company reported customer receipts for the quarter of \$88,000 – an increase of 95.5% on the previous quarter – and \$265,000 for the full year ending 30 June 2017. Skin Elements anticipates that with a continuing focus on the execution of its business plan, plus the added scale and product range delivered by the McArthur Skincare acquisition, it is well placed to deliver strong growth.

Skin Elements maintains a sound financial position, and a prudent approach to capital management, from which to pursue its growth objectives, with \$1.41 million in cash at the end of the quarter. It is also noted that the cash position was impacted by the one-off cash component of the McArthur Skincare acquisition consideration, of \$400,000.



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COMPLETION OF ACQUISITION OF LEADING AUSTRALIAN SKIN CARE COMPANY, MCARTHUR SKINCARE

In May Skin Elements reported it had successfully completed Due Diligence and had completed the acquisition of the business and business assets of Tom McArthur Pty Ltd, the owner and manufacturer of the McArthur Skincare range of therapeutic and cosmetic skin care products (ASX announcement, 5 May 2017).

Skin Elements entered into a Binding Agreement (Agreement) to acquire McArthur Skincare for a total cash and scrip consideration of \$1 million earlier in the quarter (ASX announcement, 19 April 2017). The Company was delighted to finalise the acquisition. It represents a highly synergistic and value accretive transaction which will transform Skin Elements into a natural skin care company of significant scale and size, with potential to generate substantial turnover and sales from the McArthur Skincare product range. **Details of acquisition terms and consideration are included in the ASX announcement of 19 April 2017.**

McArthur Skincare is an established, highly successful 100% Australian owned and operated company which has generated total sales of approximately \$23 million since inception in 2010. It has a comprehensive range of 17 natural pawpaw-based skin care products, including Therapeutic Goods Administration (TGA) listed therapeutic products and other cosmetic skin care products.

Post-acquisition integration of the McArthur Skincare business

With the acquisition complete, Skin Elements assumed full control of the business assets, including the product range, and business operations of McArthur Skincare. This includes all revenue from sale of McArthur Skincare products and the responsibility for the manufacture of products and operational expenses.

The Company has undertaken a detailed integration of the McArthur Skincare business model, product range and key personnel into the Skin Elements business. This integration process is nearing completion and has been highly successful. Skin Elements will continue to work to finalise this integration in the following quarter, and also to refine and expand the business model in order to maximize the benefits of the acquisition.

Expanded product range

Post-acquisition, the Company has an expanded product range of 29 products covering therapeutic skin care, sun care, and cosmetic skin and beauty care. Skin Elements will seek to grow sales of the highly popular McArthur Skincare products, and production runs of its core product, the Soléo Organics sunscreen will be ongoing.

McArthur Skincare has a successful, multi-channel sales model. This includes global retail direct online sales from the Company website, supported by digital media sales channels. Its products are also well stocked by leading Australian pharmacies and health food stores. Skin Elements plans to utilise McArthur Skincare's established sales channels to drive sales of its Soléo-branded products. It will also seek to establish new sales and distribution channels for the entire consolidated product range in key global markets.



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The Company will also continue with plans to further expand the product range via brand extensions to its Soléo sunscreen, and other innovative new skin care products. Updates on progress on these initiatives will be provided in due course.

About McArthur Skincare

McArthur Skincare was founded in 2010 and is one of Australia's leading manufacturers and distributors of natural pawpaw-based skin care products. It is headquartered in Perth, Western Australia and its products are manufactured at laboratory facilities in Brisbane, Australia. Its product range has expanded from an initial launch of three skin care products to a diverse range of 17 therapeutic and cosmetic skin care products. The therapeutic products are all listed on the Australian Register of Therapeutic Goods (ARTG), and are designed to provide symptomatic relief for psoriasis, dermatitis, eczema and rashes, minor burns and wounds, and muscle, joint and rheumatic pain. **Details of McArthur Skincare's therapeutic skin care products are included in the ASX announcement of 19 April 2017.**

SALES AND OPERATIONS UPDATE

During the quarter the Company also made strong operational progress. Its preferred manufacturing partner, Baxter Laboratories Pty Ltd (Baxter), delivered a production run of 10,000 tubes of the Soléo Organics sunscreen to meet new orders from Japan and Slovenia.

Skin Elements is delighted with the initial outcomes of its partnership with Baxter; the parties entered into a Good Manufacturing Practice (GMP) Agreement, under which Baxter is responsible for producing and packaging commercial scale quantities of the Soléo Organics sunscreen product range for distribution into major markets (ASX announcement 8 March 2017). Baxter's ability to deliver an end-to-end service – manufacturing, filling, warehousing and distribution – in a timely manner is of major importance and benefit to Skin Elements as it seeks to accelerate sales growth.

In the June quarter, in addition to the sales in the Japanese and Slovenian markets, the Company made new Soléo Organics sunscreen sales, across three separate tube sizes, to the US, via online retailer Amazon, and in Hong Kong and Australia. For the McArthur Skincare product range, sales in the quarter included its pawpaw-based therapeutic skincare creams and shampoo via its direct online sales channel and also to pharmacies in Western Australia. In total, \$35,000 in sales of Soléo Organics sunscreen was recorded in the quarter and \$96,000 in McArthur Skincare sales. These numbers are anticipated to grow strongly over future quarters.

CORPORATE

Skin Elements expanded its corporate and operational head office in West Perth via the lease of 32 Ord Street, which is immediately adjacent to its existing head office premises. This increases the Company's office space by 360m² and provides an enhanced corporate environment for its growing team post the acquisition of McArthur Skincare. This new office premises delivers the key benefit of allowing all operation staff and management to work in a collaborative environment at one location.



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The Company is also in the final stages of completing a new organisational structure post the McArthur Skincare acquisition, and will provide details of key management functions and appointments in the near future.

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For further information, please contact:

Peter Malone
Executive Chairman
Skin Elements Limited
T: +61 439 430 770
E: peter@senatural.com

Media and Investor Inquiries
James Moses
Mandate Corporate
T: +61 420 991 574
E: james@mandatecorporate.com.au

About Skin Elements

Skin Elements is an ASX-listed skin care company focused on the development of natural and organic skin care products, as an alternative to current chemical-based products. It has developed a portfolio of products which includes its lead product, the Soléo Organics 100% natural and organic sunscreen, McArthur pawpaw based natural therapeutic skincare, and the Elizabeth Jane Natural Cosmetics brand. The Company has completed a highly successful test marketing phase in major international markets and has regulatory approval with the USA FDA, TGA and other significant regulators. Skin Elements aims to become the number one recognised national and international all natural skincare brand.

Further information is available via the Company website: <http://soleoorganics.com/>

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Skin Elements Limited

ABN

90 608 047 794

Quarter ended ("current quarter")

30 June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	88	265
1.2 Payments for		
(a) research and development (note 4)	(67)	(162)
(b) product manufacturing and operating costs	(45)	(124)
(c) advertising and marketing	(14)	(28)
(d) leased assets	(113)	(113)
(e) staff costs	(149)	(195)
(f) administration and corporate costs	(145)	(590)
1.3 Dividends received	-	-
1.4 Interest received	-	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	156
1.8 Other – Listing expenses (refer Note 5)	-	(625)
1.9 Net cash from / (used in) operating activities	(445)	(1,415)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	(417)	(417)
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(417)	(417)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	3,710
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(477)
3.5	Proceeds from borrowings	-	563
3.6	Repayment of borrowings	(30)	(563)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(30)	3,233

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	2,302	9
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(445)	(1,415)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(417)	(417)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(30)	3,233

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	1,410	1,410

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,410	2,302
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,410	2,302

6. Payments to directors of the entity and their associates

	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	(70)
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Non-executive director remuneration (per the directors agreements)	(30)
Executive directors remuneration (per the service agreement)	(40)

7. Payments to related entities of the entity and their associates

	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	(6)
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Office rent – sublease (calculated as the cost of the head lease).

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	N/A	
8.2 Credit standby arrangements	N/A	
8.3 Other (please specify)	N/A	
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(10)
9.2 Product manufacturing and operating costs	(30)
9.3 Advertising and marketing	(40)
9.4 Leased assets	(30)
9.5 Staff costs	(253)
9.6 Administration and corporate costs	(65)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows (note 6)	(428)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/A – Assets only	N/A
10.2 Place of incorporation or registration	N/A	N/A
10.3 Consideration for acquisition or disposal (note 7)	(417)	N/A
10.4 Total net assets	N/A – Assets only	N/A
10.5 Nature of business	Skin care products	N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  Date: 31 July 2017
Company Secretary

Print name: Craig Piercy

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position.
2. This quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report with the exception of the additional detail presented in item 1.2 above.
3. The Group comprises parent entity Skin Elements Limited (ACN 608 047 794) and wholly owned subsidiary Skin Elements Operations Pty Ltd (ACN 110 352 424) acquired on 31 December 2016.
4. The Group has undertaken research and development activities as part of its on-going operations. The costs associated with the research and development process have been identified and disclosed separately from the additional cost categories such as lease, staff and administration costs.
5. The Group was listed on the Australian Securities Exchange (ASX) on 6 January 2017 and has incurred costs in undertaking this process. The Group has separately identified these costs and the impact on the cash flow statement as they represent one-off compliance costs which are not expected to incurred going forward.
6. The Group anticipates receipts from customers of approximately \$170,000 for the next three months in addition to the receipt of its R&D tax incentive refund of approximately \$150,000.
7. On 5 May 2017 the Group announced the completion of the leading Australian natural skincare business McArthur Skincare. The Company has initially paid \$417,000 for business assets and stock with an additional amount of approximately \$213,000 to be paid in the following year.