



10 November 2022

### **Strategy reset and revenue growth**

The main focus in the first half of the FY23 financial year has been to implement the strategy reset announced in July 2022 and to grow revenue to return to a profitable trading position.

As stated in our strategy reset, we are prioritising growth of our ingredient business through Business to Business (B2B) revenue opportunities and by working with partners. The relationship Blis established in July 2021 with Probi represents a blueprint for the new strategy. The licensing of BLIS K12™ and BLIS M18™ ingredient technology allows us to leverage our partner's global customer base and market presence.

The strategy reset includes a narrower focus related to Business to Consumer (B2C) opportunities. We have prioritised our BLIS PROBIOTICS® sales into NZ retail and NZ daigou, on our own Blis website and on the Amazon platform in North America, which are markets and channels where we have established a solid presence and have the opportunity to deliver profitable growth.

### **FINANCIAL OVERVIEW**

Revenue for the six months to 30 September 2022 was up by 10% to \$4.3m, including a stock buy back associated with the withdrawal from the Canadian market. Excluding this one-time revenue adjustment, underlying revenue growth was 17%.

Strong revenue growth was achieved in the European market with revenue returning to pre- covid levels. Our sales performance in the key US market was again disappointing with a further decline in revenue.

Royalty income from Probi began accruing at the end of the reporting period as they commenced the first supply of product manufactured by themselves under license to their existing customer base.

An unaudited loss of \$1.7m was recorded in the six months to 30 September 2022 (FY22 loss of \$1.8m).

The result includes a number of one-off costs associated with the strategy reset. Full provision has been made in this reporting period for the estimated costs of withdrawing from Canadian retail market, the decision to discontinue direct selling of our skincare product, Unconditional Skincare (USC) and the costs of restructuring internal operations. The one-off costs amount to \$0.6m.

EBITDA loss for the interim period was \$1.2m. After deducting the one-off costs the underlying EBITDA loss is \$0.8m, an improvement on the loss of \$1.5m reported in the previous half year.

The Company's cash position improved during the period by \$0.2m to \$8.8m. Operating cash flow was \$0.4m surplus despite the trading loss for the period due to the reduction in account receivable balances at the end of the period.

## REGIONAL REVENUE PERFORMANCE

As in other years we have seen continued fluctuations between quarters as larger customers order patterns change and impact the overall quarter or even half year results. This pattern is expected to continue.

### Europe Middle East

Revenue growth of 65% to \$2.1m

We have seen a significant recovery in our European sales, growing 65% compared with the same period last year. Our distribution partner BlueStone Pharma has reported a recovery in most markets they service, as the pandemic restrictions eased allowing representatives to once again visit health professionals and foot traffic returning to pharmacies.

### North America

Revenue decline of 57% to \$0.6m

North America has been particularly disappointing, declining by 57% compared with the same period last year. This result is attributable to weak market conditions, uncertainty in the current inflationary environment and overstocking by existing customers effecting overall ingredient ordering patterns. Our distributor has been particularly impacted by the delayed ordering patterns of several large customers.

Additionally, Probi are transitioning their customers from ingredient supplied through our current distributor to their own manufactured product under our Licensing and Supply Agreement. North America is a key sales region for Probi and they will actively target new business with their own production from the next quarter. For Blis this represents a transition of ingredient revenue to royalty revenue.

Our Amazon North America sales have continued to grow delivering a 20% revenue increase over HY22.

At the time of our strategic reset our intention was to look for a distributor to take over our direct retail position in the Canadian market. Following market review and discussion with interested parties we have decided the best path forward in this market is to focus on Amazon Canada selling. In line with our B2B focus we will also leverage existing and new brand relationships to broaden our retail exposure.

### Asia Pacific

Revenue growth of 33% to \$1.6m

Asia Pacific revenue increased 33% on the same period last year, attributable to strong NZ sales growth across pharmacy retail and NZ based daigou customers. There has been a focus on growing daigou sales following the closure of our Tmall store and are pleased with the revenue growth we are generating from this alternative CBEC approach. We have also experienced 29% growth in sales from our BLIS webstore, albeit from a smaller base.

Japan ingredient sales grew 9%, aided by the strengthening of the US dollar.

## PROBI LICENSING AND DISTRIBUTION AGREEMENT

Revenue during this reporting period includes our first royalty revenue from our Probi strategic partnership where we have licensed selling of BLIS K12™ and BLIS M18™. While the revenue is low we remain very positive regarding the growth potential as Probi expand their marketing activities.

In September 2022, Blis senior management visited Probi's head office in Lund, Sweden, to personally meet their wider management team and visit their research facilities. Tom Rönnlund, the Probi CEO, had visited NZ in the previous month, attending a board meeting in person and meeting with Blis staff across the various operational areas. These visits have further reinforced the positive collaboration between the companies. During October Blis attended a successful Probi Asia Pacific event in Singapore, interacting with a range of Probi customers from across the region and presenting BLIS K12™ and M18™ to a highly engaged audience.

From the end of October 2022, we ceased the sale of the USC brand as part of us transitioning to a B2B model and partnering with established skincare players globally. We were particularly excited to attend a Skin Microbiome event in Boston which was well attended by multinational and established regional skincare companies as well as other skin microbiome innovation companies. This event validated the breakthrough technology we have developed for skincare, and how we lead the world in developing a live topical probiotic for cosmetic skincare use. From this event we have several promising leads with established players within the skincare category.

#### RESEARCH AND DEVELOPMENT

Our strategic review reinforced the importance of our R&D investment and highlighted this as a core strength. Our R&D investment has been refocused on assets that fit with our overall B2B prioritisation.

We have recently seen an exciting mix of clinical trials with BLIS K12™ published highlighting the potential role it may have in reducing the frequency and length of a range of respiratory illness caused by both viruses and bacteria. While further research is required in this area, this data has highlighted the broader role BLIS K12™ can play in preventing upper respiratory illness across both children and adults. 1,2,3

In line with this we have made good progress developing our probiotic toothpaste proposition including positive clinical evaluation – colonisation and acceptability (sensory evaluation). In line with our breakthrough probiotic innovation, we continue to progress several new patents through the process towards granting of full patent rights. New pending patents in progress include:

- Oral composition patent – at PCT stage
- Topical Composition patent – at PCT stage
- Progression of anti-virus patent to National Phase review

#### STAFF

We take this opportunity to thank all staff for their contribution and commitment as we reposition the business to achieve a sustainable and profitable market position.

The easing of travel restrictions has enabled staff to reconnect with customers and to present Blis products at trade shows and to present at conferences. This has provided an encouraging number of leads which we will be exploring over the second half of the financial year.

#### OUTLOOK

There remains market uncertainty based on the economic conditions in many markets, this will be closely monitored, particularly in the US.

We are encouraged by the early B2B leads we have established; however, we recognise that sales cycles can be long within the industry so the full benefit of this revised focus will take time to flow through.

Our narrower B2B mix with a focus on profitable growth has removed much of the pressure for investment to open new markets, providing a more sustainable position for the company. These changes are part of the board and management's focus on a return to profitability, which we remain confident of in the new financial year once one-off and transition costs are washed through.

We will continue to update shareholders as we continue to implement the new strategy.

1. Di Pierro, F., & Colombo, M. (2021). The administration of *S. salivarius* K12 to children may reduce the rate of SARS-CoV-2 infection. *Minerva Medica*, 112(4). <https://doi.org/10.23736/1s0026-4806.21.07487-5>
2. Wang, Q., Lin, X., Xiang, X., Liu, W., Fang, Y., Chen, H., Tang, F., Guo, H., Chen, D., Hu, X., Wu, Q., Zhu, B., & Xia, J. (2021). Oropharyngeal Probiotic ENT-K12 Prevents Respiratory Tract Infections Among Frontline Medical Staff Fighting Against COVID-19: A Pilot Study. *Frontiers in Bioengineering and Biotechnology*, 9. <https://doi.org/10.3389/fbioe.2021.646184>
3. Guo, H., Xiang, X., Lin, X., Wang, Q., Qin, S., Lu, X., Xu, J., Fang, Y., Liu, Y., Cui, J., & Li, Z. (2022). Oropharyngeal Probiotic ENT-K12 as an Effective Dietary Intervention for Children With Recurrent Respiratory Tract Infections During Cold Season. *Frontiers in Nutrition*, 9. <https://doi.org/10.3389/fnut.2022.900448>

## Ends

*For further information, please contact:*

Brian Watson  
CEO  
+64 27 705 9133

## **About Blis Technologies Ltd**

*Delivering proven health benefits through evidence-based, advanced probiotics*

Blis Technologies is an NZX-listed manufacturer of advanced probiotic strains that go beyond the gut. Combining innovation with evidence-based research and the highest quality production controls enables the delivery of probiotic solutions for specific health targets including throat health, halitosis (bad breath), immune support, teeth and gum health and skin health. BLIS® products are sold throughout New Zealand and in Australia, Asia, Europe and the USA. More information about Blis Technologies Ltd can be found at [www.blis.co.nz](http://www.blis.co.nz).

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