

All right, uh, let's kick it off.

Welcome everyone. Today we're speaking with Clover Corps, CEO, Peter Davey.

This is a business

that's all about micro encapsulated Omega-3 oils.

It's a key ingredient in things like infinite formula, nutraceuticals, uh, functional foods.

Think things like breakfast cereals.

Uh, so the oil is, is sourced in in Ecuador.

It's processed in, uh, New Zealand and Australia, and then it's shipped out to over 40 countries worldwide.

It's a business actually, whose origins go back a long way, I believe, uh, in the eighties it was, it was first formed as a family company, and it's been on the a SX in one form or another since about 1999.

If you fast forward through to today, in fact, just to, uh, June 30th and the end of the most recent financial year, Clover Corp is a company that's throwing off about 86, uh, million dollars in revenue.

Uh, let it be said, that was a 38% jump on the prior year.

And off the back of that, we saw \$7 million in net cash.

And let me add \$7 million in, um, sorry,

\$7 million in net profit

and \$7 million in free cash flow

as well, which is nice to see.

Uh, it's the first time we've spoken to Peter,

so I'm really keen to get a,

a better understanding of the business.

And, uh, if there's anything

that you are particularly interested in, you know, the drill
by now, just use that link
and I'll put it to Peter, uh, the first opportunity
and the last thing to say, um,
which the lawyers are always keen to, keen to, uh,
make me emphasize none of this is financial advice, but,
but you guys know that already, so it's all out of the way.
Peter, thanks so much for your time today.
Thanks for having me, Andrew. Appreciate it. Thanks.
How did I do with that? As a, as a pretty rough
and ready description of the business.
Can, can you sort of flesh that out
for us a little bit or, or perhaps
Whatever I everything you need to cover. Okay.
We're done. Maybe, maybe I go back a few points,
but you did cover, uh,
essentially the business is a micro
encapsulate of ingredients.
So if I can put it in this context, we are not really a,
we don't sell fish oil.
It's not a commoditized business.
We take fish oil and then we add value to it. Um, right.
Fish oil comes mainly from two sources.
One is from a fish, obviously,
and the other is from al sources.
So about 50% of our business, we recover oil outta algae,
and the other is out of mainly tuna fish.
Uh, and that's because the, the balance of omega threes

that exist within that fish are very similar to the balance of omega threes that occur are naturally in breast milk. So it's, it's globally accepted that's what should be used. So that might be a little bit of a tick bit that you didn't know.

No, it is very interesting. Um, why, why Ecuador?

Hmm. Uh, we, we are, uh, probably one of the largest sources of tuna oil in the world.

Um, so we're sourcing out of multiple oceans and mul multiple locations.

We effectively buy the tuna oil off the tuna canning operations.

So byproduct of, yep.

Uh, Ecuador is the third largest tuna port in the world.

Okay. So most of the, the southern oceans gonna bear, and there was nobody that was actually recovering the oil from the existing, uh, canning operations.

And so we saw that as an opportunity.

Uh, during COVID there was issues around supply chain management.

So we wanted to protect that, and hence we decided we would invest in our own facility, and it's part of the overall vertical integration of the business into its supply chain.

Ah, gotcha. So that's interesting.

Um, and, and so one of the things that's always interesting from an investment point of view is that, and again, we've got a lot of people with business background, so mm-hmm.

So we understand that you, you kind of,
you spend money first and then the money comes in later.

So in terms of, so, um,
and I'm coming in cold here, I'm gonna ask a lot
of naive questions, but,
but, um, you, you, you've, you've invested obviously a,
a bunch of money now.

So on the CapEx front, at least from the sourcing of,
of the oil, is, is that largely bulked up
and does that give you enough sort of supply for what you,
you feel like you're likely to need
for the, for the immediate term?

Um, the facility in Ecuador is about the size
that can cost 50% of Ourt oil demand.

It was always the intent that we would continue
to source from other suppliers as well.

Uh, the actual site that we built has the ability
to double in capacity,
so it has the footprint capable of doubling.

It has the footprint to be able to put in full refining of
that oil as well, where it currently,
it all comes to Australia.

So there is potential for the future.

Um, at any site, you, we've gotta be able
to source the raw material, uh,
and you wanna really do that very locally.

You have to source it frozen and the transport costs.

And then of course, the problems in South America moving

across boundaries and borders is quite challenging.

Yeah. So look, the plan was

to get it in about three years time, up to 50% capacity.

Uh, we will be at

that probably we'll be a hundred

percent capacity by the end of next year.

So it's been a wonderful investment.

Uh, we've effectively paid it off in one year,

so the entire investment Right.

Totally recovered in, in 12 months,

which is exceptional considering Yeah.

You know, the, the place and the way it's gone.

Uh, and it's delivering really good quality.

So we are getting, uh, a container a month.

We're about to move to two containers a month

of oil coming outta that market.

So a great investment, not when

they come off, that's for sure.

Yeah, yeah. Fantastic.

Alright, let's, let's, let's follow it through,

the container arrives in, in, uh, either New Zealand

or Australia as I understand it.

Um, may maybe talk us through the,

the two separate facilities there

and what, what the, they focus on.

Sure. So we take raw oil

and then we go through refining process.

Um, so the refinery is actually in Australia,

so all the oil comes to Australia first.

Okay. So we bring it in, we pasteurize it,
and here in, in Victoria and I'll turn north.
We have a refining facility, which we purchased, oh,
must be nine years ago now.

So we bought that site.

So it's all, that was the beginning of our,
of our vertical integration to our processes.

And so we take that oil
and we re refine it, remove any impurities, we, uh,
change the color of it,
and then we take any smell out it,
so we can bring in a quite a dirty, awful smelly oil
and end up with a perfectly clean liquid
with no smell, no taste.

So it's an exceptional process.

Uh, we get audited weekly by our customers,
and all of them look at us
and think, wow, you've got a fantastic facility.

Uh, it really does an excellent job, that oil.

Then we hold, uh,
and that oil could be held in, in storage for up
to two months or two years, sorry.

Mm-hmm. Uh, so add shelf life to it.

We use antioxidants in the oil
to stop it from oxidating oxidating,
and then it goes into one of two facilities.

So we have a contract facility
that we have here in Victoria.

It's on the border of Victoria, new South Wales,
called the spray drying facility.

And where we take the oil
and with our technology, we turn into a powder,
or we turn it across from New Zealand,
and we have a majority share of a,
a spray drying facility just outside
of Auckland in Hamilton.

Mm-hmm. And we turn that oil into powder.

Uh, so about 50% of our businesses,
powder is made in New Zealand and 50% in Australia.

So it, it's, it spreads the risk,
it gives us better access to marketplace.

The two facilities are different.

Um, they give us the ability to do different volumes
and capacities and even products.

So it's really helped our mix of products
and our ability to manufacture a range of different options.

Yeah. Yeah. And speaking of reducing risk, I suppose
that's part of the overall, um, uh, aim
with being vertically integrated.

It just gives you more control over
where you source it from.

There's no one who's gonna, you know, tear up a contract
and send the raw product somewhere else.

Is was that the original sort of thinking with that and,
and maybe talk us through some
of the advantages you see with that, that structure.

Yeah, sure. We were, we were very reliant on facility here

in Australia when I began.

Uh, so that's 10 years ago, 11 years ago now.

Uh, and there was a risk associated with that.

Uh, we were leaking it, the leak costs were going up.

Um, it was with Murray Goldman at the time who weren't particularly going that well.

So we needed to find alternatives.

So to remove that risk, we sought, uh, partners and options to be able to build.

We ended up in a joint venture facility effectively within New Zealand government.

Uh, we paid about 50% of it.

The New Zealand government effectively paid about 50%, so we built a Greenfield site.

Um, and so that gave us an option to be able to make product obviously gives us over price, quality, availability, everything.

Our customers loved it.

Um, yeah, you know, they buy off us and they know that they're not, they're not linked to just one facility.

They've got options, options, not just in one country, but two countries.

New Zealand is, uh, the second largest formula market in the world.

It's our largest market service.

And then you'd have a particularly good relationship with the Chinese as well.

So it really helped facilitate our export.

So we, we export directly out of New Zealand into China with really little, little problems at all.

Um, it's really helped that, that, that market as well.

Um, I'll come back to the customers, but, um, you, you touched on the idea of the technology sort of behind this, uh, before.

So what, what's, is it, there are, uh, I assume there's a bit of a secret sauce that, that you guys have in, in taking that smelly fish oil and turning it into the refined product.

Can you talk to us a bit about what that is and also maybe some of the moats you might have around that, whether it be IP protections or, or just process knowledge and that kind of stuff?

The business began with, uh, with some CFRO technology, uh, a long time ago, uh, probably 20 years, that technology is no longer protected under patents.

And so we've moved on with, uh, multiple patents of other products.

So we've invested heavily in our own r and d business.

So in Brisbane we have our own r and d company.

Uh, we have about 15 people on site, small pro drive, the full lab set up quite a large facility, and that allows us to develop our own technology.

Mm. So we've taken fairly much control of our product development and, and what we try to do is we try to match customer problems with solutions.

Uh, so, and,

and the marketplace has moved away from being fairly standardized and people would recognize it's lot the product.

People want products that are now vegan or clean label or, uh, hyperallergenic products, or they wanna be able to have things that have no fish in it or just so, or a really high concentrate.

Uh, they want it to, um, brain development or they wanted to suit a heart development.

So we've developed a whole series of products and patents, and they're patented.

So they're one, they're internal developments.

Two, they're patented, and a lot of them are really surrounded by a mo of, of knowhow.

Uh, the knowhow is quite significant.

So yeah, everybody would be well aware a patent gets published, um, yep.

And therefore it can be copied if it's published.

Uh, but effectively where we really cover ourselves is the knowhow is patent into a manufactured product, which is pretty significant.

Yeah. Um, let,

let's talk a bit about the customers.

Uh, now can you give us a, a, a sense of the type of, of customers they are and the breadth of customers, um,

and the concentration perhaps, of customers, just

so we can get a feel for that side of things?

Sure, please, ma'am.

Um, so, uh, about 80%

of our business is in the infant formula market.

Um, we, we are in about 60%

of the world's infant formula cans globally,

and so majority of our business is

what we would call the western world, not the China world.

Mm-hmm. Uh,

we are increasingly picking up business in China.

Uh, so, uh, that's the majority of the business,

and then the other 20% is into food nutraceutical

and a whole range of different drinks and product

and nutraceutical product like gummies and tablets.

And, sorry, I've got a cough.

It's all good. So take, take a moment.

That's okay.

I'm done.

Okay. So we've, we've got a, a in terms of concentration

of customers, there are some massive

formula customers we deal with.

Um, the interesting thing with most of those these days is

that they're not just, uh, infant formula manufacturers.

They make product for seniors and both nutrition

and different health products as well.

So whilst we term them infant formula,

it's not just infant formula.

In fact, a lot of our growth recently has come outta both

developing alternative product
for different market segments, uh,
because the birth rate in the world is actually declining,
and they've recognized that they need to use those assets
for, for other applications.

Um, I didn't know that really, so I, I knew
that was true in the west, but globally, the, the,
the birth rates declining.

So when I started, the birth rate in China was
around 20 million babies per year.

Last year it was just over 8 million. Okay.

A massive, massive decline. Um, wow.

Even, even with the two child policy. So yeah.

Uh, all of these companies
and to our benefit really, uh, scrambling to, to be able
to develop alternative products, uh, they wanna fortify 'em,
differentiate those products.

Yep. And we help them do that.

So a big part of our business in, in Queensland is
to really do, uh, applications work with customer,
and a lot of them trust us to do their shelf block testing
for them, their product development.

They'll often send people to us.

Uh, we have people come from other companies
and spend time with us to do product development.

So it, it is a bit of a secret source of the business
beyond pure technology.

It's really that service element.

We, we will help you develop a product,
it's yours at the end of the day,
but we'll help you achieve the result.

Yeah. Nice. Um, let's talk a bit about the, the shape
of the, the industry and,
and, um, competitors in, in your space now.

I don't think anyone within our group worries
overly about competition.

It's just a normal state of affairs in, in all markets,
but it is, it is handy to sort of get a, a lay
of the land there in terms of what the industry looks like
and also, uh, when you are presenting to customers
or potential customers, how potential, how would,
how you would advocate for Clover Corp being able
to provide a, a better product
or a more reliable supply of product
or all of that kind of stuff.

Mm, sure. Um, really in the Western market,
we have two competitors.

So it's fairly unique. Uh, it is a niche that we are in.

Um, one of those is called DSM, so they're a massive
material company globally.

Yeah. The majority of their business is in the us
so they're quite dominant in the US market.

Mm-hmm. We do find it difficult to compete against them, um,
as a corporate, their technology is
average compared to ours.

And I can, I'll, I'll define that for you.

Uh, and then the second major competitor

that we have is called Freeland Campina.

They're, they're second largest dairy group in the world.

They actually bought a similar business

to us many years ago, uh, which helped us quite immensely.

Uh, so, uh,

they're our two biggest competitors in the western world.

Uh, we're, we're about 60% of the world market.

They have the rest. Yeah.

Um, there are a number of smaller competitors

that operate in, in China,

and they're pretty exclusively just for the China market.

Mm-hmm. Their technology is very average

and their price are very low.

So, and that's the way they compete.

They compete on price, uh, yeah.

And, and why are we different

and have more, uh, it's the technology.

We have unique technology

and we have a whole range of solutions, not just one or two.

Um, so we're the only one with a range.

The others have one or two, maybe three alternatives.

So when a customer tests our product, most of it's tested around sensory outcomes.

So that mal type and that that's the defining element.

Somebody wants to put Omega-3 into a product,

they don't want it well, and no one wants to taste it.

Right. We get the results of their testing that says, okay,

your product is a 10, your local,

the Western competitors are about a seven
and admit the Chinese competitors are a three
or four, so they have
to have a scale in terms of that performance.

Um, so we are, we have superior technology that we continue
to add value to, and that's why we win.

Um, I had an interesting story recently, China
with a customer who, who had, we had some, uh,
in our product and we spent two hours the product
with a translator in Chinese, two hours
of product spread all over the table
remembering this is encapsulated fish oil, it's everywhere.

And after the two hours,
and we got through everything in, through translators,
I said, I just want everyone
to understand we've been sitting here for two hours
with our product on the table.

Can anyone smell fish in this room?

And the head of quality, a lady said, perfect English
after two hours of translation, we know
that's why we have to buy your product.

We're just trying to get a better price.

Alright, that's fine,
but they're not getting a better price.

Let's keep moving on. So they tried, they tried hard.

Oh, well that's, you know, you, you should hope so. Right.

That's just negotiation.

Um, well actually, you've,
you've preempted my next question, Peter, which, which was,

um, does that, does that level

of quality give you some pricing power?

But I suppose the answer is yes.

Yeah, it does. And, and look, when we deal

with companies large

and small, uh, the, the operations people love us,

the quality people love us, the marketing people love us.

Uh, it just works. Our product really works. Yeah.

Um, whereas the purchasing people really dislike us

because we have, we have quite a reasonable amount

of purchasing power, obviously, that, uh,

that is understated and controlled,

and we're, we're careful about the way we do it,

but we are probably on average 20

to 25% above our competitors.

Uh, interesting. We'd be more than 50% above the,

the Chinese market products, which we've,

which we've actually engineering and developing

and products to suit that marketplace.

Um, so yes, we do have a fair bit of price

and power, um, in the current market.

It's challenging to put prices up.

Um, certainly as we went through the difficulties

with the availability of products

and freight issues, uh, back in 2020, uh,

we had significant price increases during that period

to be able to recover our costs, to maintain our margins.

Uh, if anyone looks at our P

and LLC, we've got, you know, 30% growth margins.

It's, it's a healthy, healthy business and Yep. Yeah.

None of our competitors can support that sort of position.

That that's, that's super interesting.

Um, uh, you've, you've mentioned China a few times,

and I, you know, it's, it's one of these things

that's very much topical

and in the news, given all the geopolitical kind

of stuff that's there.

Um, I'm sure you've answered this question a million times,

but I have to put it to you, you know, um, you know,

are there anything, is there anything on your radar

that worries you, whether it be with tariffs

or a decline in relationships or, or anything like that?

Or are this just pure, I imagine it's just largely business

for your customers and they're just looking

to get the product that they

want at the price that they need?

Yeah, it's, um, it's a good question

and there's, there's so many points to it.

It, we could go on for a long time,

but really in short, the thing

that worried me about the China market is

pull levers on regulatory changes, uh, which they do often.

Uh, so that can, what, what they've tried

to do over the last, uh, five to six years is, uh,

reduce the volume of imported products in their marketplace.

Uh, and so we've seen many customers

that have exited the China market.

Um, uh, a big part of why our improvement came in the second half last year is a lot of those customers had to transition away and find new markets for themselves.

Yep. Um, but essentially it more opportunity than anything.

Um, China is still, uh, one of the largest, it is the single largest user of infant formula in the world.

Um, so it is, we have a tiny share of that.

And so every opportunity we get is, is another opportunity that we're gonna grow our business.

And so we are focused on that marketplace.

We appoint distributors, we develop product that's typically that suit that market and their applications.

Mm. We treat it as a, certainly a very important marketplace where we can grow this company and, and I'm sure we will in the future.

J just on the nature of the, of the industry, Peter, you mentioned you, you're the largest sort of player that's there.

Can you give us a sense of what the, the, the, uh, the market itself is growing at and where you see the greatest potential for, for growth in, in terms of what you guys do?

Yep. So, uh, the overall Omega-3 marketplace, so it's, it essentially we do in the powdered component of it, but it's growing at about six to 7% year on year.

Um, so it's, and that's because more
and more people are recognizing what Omega-3 can do for you.
Um, and I won't go into the science of it,
but let me tell everyone, if, if you are not taking Omega-3,
you need to, you, you can't, your body does not create it.
So you need to have it, it's 60% of your brain
and you use it, so you wanna save off
Alzheimer's, take Omega-3.
That'll be my ad for the day.
We don't do capsules to take capsules. Yeah.
Um, uh, the opportunity for us is one,
there is growth opportunities in infant formula.
Yes. We're big in it. Yeah.
But we're big in it for a reason, so we have an advantage
and we'll pursue that.
The real opportunity for us that we see is in
the increasing fortification of food product
and the development of other nutraceutical applications,
people don't
more and customer are trying product
like a health bar,
or you said there's brands, there's cereal.
We, we've got, there's a whole range of product,
and so it's, it's currently 20%
of our business by revenue.
Um, yeah. We see that with a potential to double, uh, so,
uh, because it's binding the channel on the market,
the applications to be able to do it, uh,
one infant formula customer buys by the,

a small good manufacturer buy buck kilos, right?

But, but as they develop their brand positions
and we help them do applications with our unique products,
and we develop solutions for them, it's a channel
that we've started to grow.

We've seen the most growth last year came from the other
channel, which is those other segments for us.

And we've developed both a, a product portfolio
and now a distribution strategy to be able
to access those customers.

Um, so it might be too much detail,
but in our horizontal integration of our business,
we've done a lot of product development.

Now we're doing market development,
and so we sort of needed the product to be able to take
to the segment, uh, yeah.

That we've done the product and know now
what we've done is we've been really good at servicing
formula customers,
and we have about 10 people around the world that service
that doesn't allow it to go and service to manufacturers
or food manufacturers or nutri manufacturers.

So what we've had to do,
and it's, it's relatively new,
is find the right distributors by country to be able
to take us to those customers
and then represent our product.
So it's the next phase of our,

of our development and growth in that market.

Peter, what do you reckon the, the biggest barriers to entry are for, for your space?

You know, just the, the nature of, of, uh, an industry that's growing with healthy margins, you know, people, capitalism being capitalism, people look at that with great envy and think, well, maybe I'll take a slice of that, but it's, but it's not always easy.

Um, and, and if it's, if, if that's the case in, in your space, what is it that makes it not easy to, to get in there?

Is, is it a scale, uh, problem?

Is it a sourcing of a raw material problem?

Is it a regulatory or, or licensing problem or, yeah.

What, what, what would you say in regards to that?

Um, I'd say this is one of the hardest industries to get a, get a foothold.

Um, oh, really? It's, you've got to have the technology and capability, uh, to pass, just to begin to get your foot in the door.

Yep. There are significant regulatory and quality hurdles to get into this business.

Uh, the ations around, uh, what goes into just the oil and the quality of that oil are being stepped up year on year to to be so pure that a lot of companies cannot reach that purity.

And that Ecuador really gives us that advantage of having right from the source

and even the refining, it's a significant advantage
that we can produce quality that other people can't.

Mm. Um, then it's then having the technology to encapsulate,
to be able to make it available to go into a food product.

It hard, I've been doing this for 30 years, so
it didn't happen yesterday.

Uh, yep. Then to achieve a relationship with a customer,
that they're even gonna have the time
to do the qualification of your product, it costs them time,
and it is not their focus to display ingredient that work.

Yeah. So most of the time they're focused on much
you consider a product that you manufacturing.

In food, we generally be one to 2%
of the content of that food.

Yeah. Right. You know, they're focusing on the 98%, they're,
they're much more
after the bulk commodities
where they can play one supplier off against the other.

Yes. You've gotta get through their regulatory,
their auditing process, their,
their product development process,
then their shelf life testing.

Yeah. At minimum, that's a three year process.

In general, it's a five year process, so customer tend
to be very picky,
yet they'll have more than one supplier an alternative,
but really it's very difficult for somebody
to walk into this marketplace and get into it.

Um, I can give you the example of a company called a very large German company called BASF.

Oh, yes. So they were the third largest competitor in the marketplace three years ago, and they just found it so difficult.

They decided, look, we're gonna put our resources somewhere else.

They have, they dropped the product 100%, they no longer do powdered omega threes.

Uh, so we picked up a lot of their business, which was very helpful last year.

Um, but, but for somebody else to come and take that space is very challenging.

It's a great, great part of the business because it's hard for us to achieve a customer, but it's very hard for us to lose a customer

That, that is very interesting.

Mm-hmm. Um, I tell you something else that's kind of interesting, that is that, uh, from, from an investment standpoint, you see a business, and this is, this is, um, not that uncommon given the, the recent, uh, history of, uh, COVID and how that sort of disrupted everything.

And just the eyeballing some of the, the broad metrics on CommSec.

You see revenues going up, earnings are going up, and then this COVID thing comes along and just knocks everything out.

And all the, uh, you know, people who like to do scans

and all this kind of stuff, they kind

of go, well, the growth is gone.

Um, well maybe until the most recent set
of full year results, but, but then I look at it
and I go, gosh, the PE is 15 now.

This is a market where I would say,
I don't think it's controversial to say
that on average PE is a pretty elevated sentiment,
is sort of, sort of up there.

And I don't, I I would certainly never get you to, to, um,
explain what the market is thinking.

'cause God knows what the market's thinking at
any one point in time.

But I guess what I'm getting with this is that often,
and we've seen it a few times with companies
where people mistake a sort
of broader structural issues with
what might be happening at, at the specific level
of the business, and they also sort of, you know, um, uh,
misunderstand that, that sometimes a lot of
what might be reflected in some of these numbers are periods
of investments, sometimes of external shock.

And it just, it doesn't get noticed until it sort
of like he slaps you in, in the kind of face,
this is a horribly leading question,
but it, it feels a little bit like that with you guys.

Or am I up the wrong tree?

No, I you were a hundred percent right.

Um, I, I, I could, I had a graph, I could really talk you through it in, in detail, but I always put this to the analyst that I do talk to.

Um, the fundamentals of this business as this business are fantastic.

Uh, we are, we are lean, uh, we are very cost effective.

We run this business in Australia, uh, and, and if you look at our costs, they're not high.

Um, we have outstanding technology and it's continuing to develop, and we have a product that's very hard to place.

Um, yeah. But if I go back to the start of COVID and just give you a few things, um, when COVID hit, there was a pantry stacking, which most people would've heard of.

We went through the route, uh, we could not peep up. Yeah.

Our customer thorough inventory move, and this is to a man, every customer, uh, went and thought, oh, look at the demand.

Well, we need to keep filling it.

So we filled all that demand, well, unfortunately, never sold again.

'cause everybody had a pantry full of product, and so we had two years of shelf life on our product, and so therefore, next two years with a decline in the business.

Yeah. Is that, is that bull whip effect of, of sorts?

Yeah. Terrible. Um, uh, yeah, it wasn't a good period, but, but look, the first bit was really good.

Um, yes. But due to decline, and so therefore we got castigated in the marketplace. Then, uh, following that, China introduced legislation which required a, a lot of customers would've heard and seen on the news the DA market.

Yes. So, infant formula was being bought from shops in Australia and New Zealand and Canada and Europe and being sent into the China marketplace in quite large volumes.

Um, so you could buy a cannabis formula in Australian shop for \$20 and sell it in China for 60.

Uh, yeah. So it was a good market. Yeah. Uh, it was, I remember speaking to Blackmores at the time, they, but, you know,

Yes. But some businesses did extremely well. Yeah.

Um, and at the same time, China went through some issues around the quality of their product.

So they used those two instances to try and put some standards around their product, but they released a standard, this is what constitutes infant formula.

Yep. And in to achieve that, you had to go through a process of having a doctor of information, you had to be audited, and you had to get a license to be able to sell retail.

Mm. Yeah. They also introduced a law that basically said, if you are a person that's selling it in not for retail,

you become responsible for
that product meeting the China standard.

Okay. Basically closed the gon market down overnight.

Yeah. A tourist
or a student here in Australia selling product into China,
and it didn't meet that standard,
or they didn't know they were gonna be fined, jailed,
whether gonna go back home.

No. It, it really did shut the market down quickly. Yeah.

The other part is very few western
companies achieved a license for nearly two years.

Mm. So their retail position shut down pretty quickly.

Um, yeah. So they, they went through a real hiatus.

We think only now that those customers have been able
to come out of that, they've achieved licenses,
they've found their channel back into the marketplace.

Uh, they've, they've developed their online marketing
and they've got online stores,
but they're selling into the China market,
but also other markets, a lot of them have gone Okay,
when we can't be relying on China, so we're gonna go
to the Middle East and we're gonna service more of I Europe
and we're gonna do more of Asia.

Mm. A lot of our customers have done a good job
at reinventing themselves.

Mm-hmm. And so again, the fundamentals up same,
but the customer had to find a new channel
and we've moved with them,
and hence we're seeing that growth outta those now.

Yeah. That, that's, that's very interesting.

Um, you got a pretty healthy balance sheet
by the looks of it too.

Yeah. Um, uh, a whole, a whole bunch of sort of cash that
that's sort of on there, uh,
you're paying a dividend as, as well.

What's, what's the, um, what's the, the capital
philosophy of the, the business?

I, I know that this is partly a board level question,
but, um, do, do you, do you, um,
I, do you feel capital constrained in any way?

I, I imagine that you don't, and, and,
and if you don't, what, what, what sort of the plan
with the cash do you prefer to, there's no right
or wrong answer with this of course,
but it's, it's always interesting to get, get sort of the,
the, the leader's, uh, uh, perspective on it.

I mean, do you enjoy having this
sort of, the buffer that's there?

Is it earmarked potentially for some more CapEx or,
or what are your general thoughts on this?

Or just dividends as, as far as much as you can?

Um, first of all, I'll say, uh,
we don't capitalize RD we expense our RD.

Okay. Um, That comes from my history.

So I, I don't like doing the other work. Yeah.

Uh, in terms of managing our balance sheet, we tend to,
we've tended to borrow to meet our requirements.

Um, and so we'll take out loans
that then will pay themselves off.
So as we bought, we bought this site originally,
we paid it out hundred percent.
We, we bought, uh, into New Zealand.
We paid there hundred percent we bought into Ecuador.
Uh, I think there's a small amount
of debt left on the balance sheet,
that balance we could fix tomorrow.
So effectively, we, we run the business not outta,
we run the business outta our own cashflow, which is,
which is good, uh, convenience.
Yep. And we borrow and go outta debt when we require.
I don't, I think from a board perspective,
if we required more capital,
we could go to marketplace for it.
We've always tried to keep our power to dry somewhat.
Um, if people have followed me for a time,
we do exactly what we say.
Some people don't like that. Um, but that's what we do.
We like it. Yeah. Look, a lot of people don't, uh,
really, I think people like more aspirational stories,
but I'd much prefer to tell you, this is what we're doing.
This is what's happening next, and absolutely.
Deliver or, or better it. Um, that's, that's my view. Yeah.
So, uh, we've, we've founded out recently, we tend
to have about 8 million on the balance sheet all the time.
And if you look at our balance sheet at the moment,
there was about 18 cash

and there was a maybe nine in cash, significant amount in,
in, uh, trade payables.

So we, we were due a fair bit of money at the time. Yep.

Receivable, sorry. So that was significant now,
which has obviously come in then.

Okay. Um, we, uh,

because we purchase a lot of oil, that can tend
to be very lumpy purchases.

Mm-hmm. Uh, so that, that can go
through one purchase could be 5 million.

So that can be quite significant
and they tend to be sort of like quarterly buyers.

So yeah, the balance sheet, we reflective of that sometimes.

The other part is we indicated during the call, uh,
recently in the result announcement
that we've developed a new product
that will release, uh, over,

I've got a question on that. Yes, yes.

I'm sure you do. And so it, it will require capital.

Uh, so we will require at minimum
a small facility, uh,

and that's probably around a five to 10 million purchase.

We'll probably do that partly outta
cash, partly outta a loan.

Um, yeah. Longer term runs, we would, we want,

if we find the right opportunity

and develop the business further

and other acquisition opportunities, then we would go

to the marketplace for, for more capital.

Yep. No, no, I love that.

Well, one of the things I, I look at,

I don't think many people do,

but it's, it's interesting 'cause it's unusual.

So I'll, I'll not, you can comment on, on,

on it if you want, but you don't need to.

But I note that clover's got

to 167 million shares outstanding.

10 years ago it was 165.

Uh, which, which speaks to something I think in terms of,

of the, of the capital management.

Um, uh, well, let, let's, let's, let's go with, uh,

chlorine, uh, Excel given, given

that you've just touched on it then.

So the, the questions come through from Zach.

He's asked, uh, how are you thinking about the different

approaches to bringing that to market?

Uh, I, I might take one step back

and explain what it's first. Oh,

Yes, please. Yes, yes, please.

Yep. So, um, I think everybody knows what Omega-3 is.

Uh, so EE effectively Omega-3 is a fat

or a lipid in your, that you consume

and in your body, it goes in your cardiovascular system,

it's about 30% of your eye and about 60% of your brain

and your body cannot produce it.

Mm-hmm. Um, the carrier of that lipid

through your body is a product called choline.

It's a, it's actually that goes in your bloodstream
and attaches to a lipid
and then in the right parts of your body.

Right. So that explains why, um,
what happened was Europe created a, a,
a law legislated that hand of infant formula has
to contain, uh, equal
or greater quantities of choline to the level of
Omega-3 omega.

Mm-hmm. Which was o
Otherwise it just flushes through the body. Is that Yeah.
Basically your body's not gonna be able
to u utilize it well enough.

Gotcha. Which perfectly good. I got it. That's good. Yep.
Um, that's a great law.

Uh, then China followed and did exactly the same thing.
Right. So there is the legislative requirement effectively
for every can of infant formula at minimum
to require choline.

Mm-hmm. It is also used in a whole range of other products.

Uh, but, but I'll just stick
to the infant formula at the moment.

Choline by nature is called it's,
and it hydroscopic,
meaning it attracts water from the atmosphere.

If you take a piece of it put on the table,
it turns into a puddle and then drives into a heart rock.

Um, so most food application, especially a can

of a powdered infant formula is a dry application.

Um, yeah. You know, using this product

that naturally attracts water, it is

a great idea scientifically and,

and biologically that you require it,

that it is a manufacturing nightmare.

And there have been very little in the way of solutions for

how to actually effectively use in the manufacturing

sense Yeah.

And using it in a dry packaged sense. Yeah.

So we were challenged by customers that said,

you need to fix the problem.

This is what your company does.

So I was thought eight years ago. Sure. We'll fix that.

Um, eight years later, we fixed it. So wasn't easy.

I thought it would be at, have come up a solution where

a free flowing white powder, same particle size,

bulk density as milk powder, no taste, no color.

Um, fantastic. Yeah. It is the needle in a haystack.

Uh, and it's legislated, so you have to use it. Yeah.

Um, where we're at is we have developed the patent done more

search work, and we have applied for the patent.

Uh, that's about, so you give it to the Hague,

you effectively get 12 months

and then it'll be released as what's called ptt.

Okay. At that stage, uh, then the marketplace gets,

when you get it, it's registered to you

so no one can copy it.

Mm-hmm. The marketplace gets to see it and comment on it,

and we've already done the background work
to make sure it's unique and, and, and, and registerable.

Mm-hmm. So we are in a bit of a hiatus in terms of
we show customers,
but we can't really give you, you don't wanna give it away
before it's patented.

Yep. Uh, so it gives us a time where we can turn, uh,
our he mines to manufacturing it at scale.

Mm-hmm. We've worked the last 12 months in the manufacturing
process business here in Victoria where we've been able
to develop at scale.

Yep. We need a factory to make it at much larger scale
to be able to buy into the food and infant form.

So we're at that stage now, we're looking for facilities
or partners or to be able to, uh, make it at scale.

We, we'd rather a brownfield sort of application.

Uh, greenfielding dryers is not a short term sort of option,
so we're looking at working with people
or buying an asset where we can do it to be able to go at a,
to much larger scale supply the entire market.

So, so where's the choline coming from at, at the moment,
if it's mandated and it's got all these, these tricky things
that are associated with it.

Is, is there just a shortage that's out there
or, yeah, no flesh that one out

At the moment, you buy choline, uh,
for human consumption has to be in a, in a crystalline form.

Yep. Uh, so you buy crystalline form, it comes in a bag,

uh, five or 10 kilo bag, that's basically a bag of cement.

Um, okay. You get it, you have to hit it with a sledgehammer to break it up into parts.

You then have to mix it with water, so you turn it into a liquid, and then generally it's put through a spray dryer with milk. So it actually goes through the process and dries and the spray dryer.

Mm. So it tries to attach to milk particles and therefore not get sticky.

It gets sticky, right. So you have to overdose.

It makes significant, so you, you want to get 20 milligrams, you're probably gonna use 30 to 40 milligram to get result it, everything in the processing cleaned and get out.

And of course it's not very friendly goes a dry can as well. Mm-hmm.

Yep. Uh, so, you know, I'll ask the, the analyst question and, and I'm really just looking for a, you know, a, a a, a generalization rather than a specific number here, but if, if you fast forward, say five years, you know, what does choline look like in terms of, you know, the, the share of revenue, do you think?

Or, or what, what's the hope?

Um, the hope is it genuinely doubled the business. Um, Oh, wow.

So if I put it in this context for you, 60% of our business today is going, sorry, 80%

of our business today is going into infant form
and manufacturer for the DHA complain.

Mm. They've all got the same problem.

So, uh, they have got a legislated problem, which is,
how do I get into this product?

So every single one of those customers has to buy equal
or greater quantities of choline.

So even if we're only servicing exactly the same customer
base that we have today, they require this product,
they've got no choice, I
show it to them and they're excited.

The problem I've got at the moment is I can't, it's not,
not, I haven't got the ip Yeah.

And I haven't got the production at scale,
so I'm very cautious about how far we've put this.

Um, so it's, uh, it, it's certainly got the opportunity
to be able to double a business.

It's unique. No one else can do it.

Um, we will buy, like, we buy fish oil. Mm-hmm.

We will buy choline.

So it's, it's, we're not a, we're not a threat
to the fish oil manufacturers nor the choline manufacturers.

We just take those products and make them more usable.

We add value to them, and that's why we exist.

Um, we're, we're taking something
that's commoditized effectively in the world
and talking, turning it into something
that's really friendly and usable. Yep.

Yep. That value add is where the margin is.

That's, that's definitely true.

Um, I, I might, I might just put some questions that have come through Peter, just, um, for risk of, of running out of time, otherwise, uh, I got one from Alex here.

He is asking about how's the industry broadly being affected by ocean pollution and or overfishing?

Is that, um, is that something that you, you guys are seeing?

Oh, um, maybe I'll put it in context.

The fish oil that we buy are 90% of the fish oil we buy is tuna oil.

Mm. Um, so, and tuna is probably the most control patch in the world.

Right. So I'll give you an example where we are positioned in Ecuador, it is outside of minerals.

It is the largest export of Ecuador.

So they're not a little bit, they're extremely protective.

So I've been to Ecuador, I've stood on the ships.

You have an inspector on the ship with you.

When you take, when you unload the ship, there is an inspector looking at the entire patch.

Today, right now, 50% of the fleet of ships that are in Ecuador are shut down.

So immediately when they see a reduced fish dive and a catch, they just shut down half the fleet.

Um, so right now we are dealing with that today.

So they, these ships are 20 million boats.

They're not little things. Uh, yeah.

They're quite exceptional. Their ships not both.

Yeah. So you go to the, the harbor right now
and 50% of the fleet is in harbor.

So we don't see that, um, in terms of,
uh, we are really happy with the fact that
because tuna is such a critical fish, uh, it,
it closed down a lot.

I can tell you in the world of frill
and other markets, this happens to them quite often.

Um, we buy fish, which is in specific fishing zones.

Um, uh, you may not notice,
but the EU specifies that any oil that we use,
and we obviously sell a lot of product use.
So every bit of oil goes under the same standard. Yeah.

You have to be able to geolocate the catch
where it's caught in the ocean to ensure
that is within one of those zones.

Um, okay. We can only buy when we get a certificate
of evidence that says this catch,
this oil came from this catch that was caught here,
and we have to provide it to our customers. Um,
Interesting. It's a heavily
controlled industry,
and I'm happy for that.

Um, it's good.

Um, but it quite, the,

the tuna catch is quite typically controlled relative to, uh, minerals and things that are in the ocean.

Mm. Um, the, the one really good thing about tuna fish is it's a deep sea fish.

Right. It's an extremely deep sea fish, and that's why they have much oil within their bodies.

Um, right. And so, uh, it isn't to as many other fish are that we would normally eat, uh, you know, that we normally would eat.

Mm. They're much deep sea fish and therefore don't get a lot of the contents of mercury and things that you see in, in localized sort of fishes.

Yeah. Interesting. All

We test a hundred percent Yeah. Is texture.

Mm. Yeah. Yeah.

I mean, as you say, uh, look, you, you said before, it's, it's one of those things that it, it's an, um, it's a layer of complication, but it, it is also a, a competitive barrier for entry as well.

So there's, you know, there's two sides to every coin.

Mm-hmm. Um, I got a question from Pete here, and we, we touched on this briefly, so if you feel as though you've answered it, uh, we'll move on.

But he's just saying, why has revenue bounced around for the last three years or so?

Hmm. Oh, look, I, I think we've covered it fairly well.

Um, uh, a lot of our customers were impacted by the change in legislation in, in China.

Uh, it heavily impacted people.

So every western manufacturer went through probably a two year hiatus, where all of a sudden the retail market in China closed to them.

Um, so they had to find a new channel to market and actually achieve a license.

Most of our large customers now have got one to three licenses, uh, relative to Chinese.

A lot of the Chinese customers have got 15 licenses.

Uh, so yeah, it was certainly in favor of the Chinese local.

And look, the investment in assets in China, you can understand they're massive facilities with a lot of government investment in them.

Yep. So, but, uh, in recent time, we've seen a real rebound, especially in the China market of our, of the Western customers into the China market, and that's been really helpful and reflective in our sales in more recent times.

Uh, the, the next also from Pete is, is asking about the, the level of r and d spend currently and, and also incoming years.

Uh, can you give us a sense of o of of scale there, uh, maybe relative to, to to revenue or whatever you'd like to benchmark it against and, and how you sort of see that evolving in the, in the near term?

Mm, sorry, I don't have the number exactly of what we're spending and it's, it's very difficult to see

because we split it in different ways.

Right. RD about 3 million to run. Oh,

Okay. Um,

so it, it not huge expense. Yep.

But we actually build off the project, different project,

so, and on, uh, I think in our p and l

and the annual report, you'll see them split out.

So there's a, when we get into a project like the choline,

we actually divide that out and run separate project.

Um, and then a lot

of our production trial work actually ends up in, in cost

of good, because we develop a product

and we end up selling it out.

So it's, it's,

and all of our I IP development is all put into

administration commences,

so it's hidden in different lines within our business.

Uh, because we're effectively an RD business, uh,

we, we put a lot into it.

Uh, it's an area that we don't constrain. Yeah.

And we've put a lot

of capital investment into it over the years of putting in

that whole new facility that's up in Brisbane

that we bought some three or four years ago now.

Yep. Yep. It,

Yeah. It lays the

foundation for future growth,

doesn't it? Mm-hmm.

Uh, the good thing I'll put is that we don't,

we don't do r and d for r
and d, so we actually have a really strong process around
matching a customer need to an outcome.

So therefore there is a commercial output
to the work we're doing, rather than just invent
for the sake of invention.

Yep. I, I can see
that was called out in your recent deck is the,
the operating expenses is up a little bit, but,
but from those hires in, in r
and d, so it's, it's clearly a focus there.

Um, if I was to offer you a \$1 billion line
of credit interest free mm-hmm.

I won't 'cause I don't have it,
but if I, if I did, what what would you spend it on?
Oh, look, probably what I've been trying to spend it on,
um, we've done a lot of vertical integration business,
and I've probably alluded to the fact that we need
to do more horizontal integration to more markets.

Uh, so I, I would look for other,
other companies that have already developed technologies
that have got a way of adding value and
therefore get, get quicker growth rather than trying
to invent everything ourselves.

I think there's a real opportunity for the business
to identify people that have identified similar solutions
or other solutions, and therefore we could take that on
and put it through our existing commercial network.

Um, so we've got a,
we've developed a good supply chain into other customers
and distributors, and
therefore we'd be able to leverage off that
to be able to grow the business quickly.

Um, I think I've actually run through most
of my questions here.

Oh, no, actually, here's, here's an important one actually.

What, what are the, the, the, the risks
and challenges as you see it?

I, it's probably too strong a phrase to say
what keeps you up at night,
but what, what keeps you up at night?

What keeps me up is people, um, businesses
that are all about people.

Yeah. Uh, and everybody's an individual
and it's challenging.

The people are challenging
and treating everybody's an individual
and trying to keep a corporate direction going
as you grow and get bigger.

And we're global. Uh, we are literally global.

We might be Australian based,
but we've got people all over the world.

Um, yeah. So it's people and, and looking
after them to make sure they grow
and develop you, retain and find you.

And that's, that's where the biggest challenge

About 70 people is that, is that right?

Have I got that right? Yeah. Yeah.

It's, it's a strange number when you look at it.

Um, corporately

inside the business we have about 70 to 80 people.

Yep. Um, but then we own a large part of Melody dairies.

Uh, melody Dairies has about a hundred people. Right, right.

We, we, uh,

contract another dairy business here in Victoria.

They've got about 20 people.

So yeah, we outsource all of our logistics

and warehousing that would cover another two or 300 people.

So we try to run this people

and at that light as much as possible

and outdoor things to expertise.

Yeah. Nice. Any closing thoughts?

What, what, what didn't we touch

that I probably should have touched on?

Or, or do you, do you feel as though we, we covered all,

all the main, the main points.

I hope you've covered enough

to give people a good understanding of

what we're and where we're going.

And it's an exciting little business,

which I really enjoy being part of, so, yeah.

Well, thanks. Yeah. It's been, look,

it's been really illuminating Peter.

Often I do intentionally going cold

'cause it allows me to ask the dumb questions

without sort of preloading it.

And I'll be honest with you, I kind of had a look
and thought fish oil commodity, I mean, that's just,
you know, it's, it's, it's that sort of knee jerk kind
of reaction and it's, it's why we have these conversations
because you've dropped, um,
you've dropped a few real nuggets there today that have,
are gonna cause me to go back and have a much closer look.

And, and so we very much thank you for that.

And, um, yeah, look, we'd love to stay in touch as well,
so maybe, we'll, we'll do it
again next year if you're up for it.

Cool. Thanks Andrew. I appreciate your time
and your interest and, and everybody coming
online. Thank you very much.

Awesome. Thank you. I'll let you get back to it.

Thank you. Bye. Cheers.