

PROBI INVESTMENT AND PARTNERSHIP BRIEFING
INVESTOR CALL TRANSCRIPTION

7 July 2021

Brian Watson: Good morning. Thanks for joining us. It's Brian Watson here, CEO of Blis Technologies. And with me in the room are Tony Offen, the Chair of the Blis and Richard Wingham, our CFO. On today's call I'll provide an overview of the long-term strategic partnership with Probi that we announced this morning. And at the end of my presentation, we'll answer any questions that you may have.

My presentation today is based on a slide set that we've recently released to the NZX. So you're welcome to grab those slides and follow through the presentation as I discuss it. I wanted to start by saying, this is a really exciting day for us at Blis. This partnership represents a major growth initiative for us, and it also represents a long-term strategic collaboration with Probi.

Slide 2 The main terms that we've announced today are an establishment of a licence and supply agreement to drive increased revenue for Blis as we go forward. The elements of that revenue are based on us granting Probi the right to manufacture our key probiotic strains, BLIS K12™ and BLIS M18™, and sell those products as ingredients and finished goods and pay a licence fee for those rights. It also represents the opportunity to continue to collaborate on future products, if and when they come through our pipeline.

As part of the agreement there is a strategic investment by Probi of \$9.18m, which enhances the Blis capital position. That investment is based on the issue of new shares, which results in a 13% shareholding, post issue. It provides Blis with the capital to support major growth initiatives that we see and have communicated previously. The shares were issued at a 5% discount to the 20 day VWAP, as of the 5th of July.

More broadly, the relationship also focuses on collaboration across R&D, and the opportunity to leverage each other's probiotic strengths, and strengths in probiotic innovation. As part of the agreement, we will also have the Probi CEO join the Blis board, and that will occur post the ASM, on the 21st of July.

Slide 3 Some background on Probi – it's one of the largest probiotic companies in the world. They are based in Sweden and were founded in 1991. They have an extensive global presence, with operations and offices across the US, Sweden and Singapore, and they have a strong and broad portfolio of products focused on digestive health, immunity, iron absorption, bone health, women's health, and stress and mental health. Interestingly, their product mix is complementary to the Blis product mix, rather than then competing with a product mix that we offer.

Probi's a fully integrated company, focused on researching, manufacturing and delivering probiotics as supplements and functional foods. They're recognised for

their expertise in managing stable, live bacteria from R&D, right through all of the manufacturing processes and ultimately delivering health benefits to global consumers. Probi has operations across 40 markets and holds more than 400 patents globally.

The market cap for Probi as of the end of trading yesterday in Sweden was 7.07 billion Swedish krona, which is approximately NZ\$1.1 billion. So a significant company for us to partner with as we move forward.

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Covering the scope of the collaboration in more detail, and how that will deliver significant value to both parties - the primary opportunity for Blis is the substantial revenue growth we see through collaboration with Probi and their significant market penetration globally. The other key component of the agreement is the capital funds of \$9.18 million, which gives us the funds for investing in our own growth initiatives as we move forward. For Probi, the opportunity and why they are so excited about the relationship, is our strains and the recognition of our strains as leaders within oral health. They have the opportunity to expand their portfolio and leverage that portfolio into their strong and existing customer base globally.

More broadly beyond those commercial elements, we see significant opportunities to collaborate on R&D, both companies being recognised as having expertise in developing innovative probiotic solutions. Probi is an organisation that is focused on strong evidence based probiotic solutions. So there is the opportunity for both companies to collaborate on broadening the scientific and clinical validation of our probiotic offers within the market. Probi is also recognised as a high quality contract manufacturer, providing both fermentation of probiotics, development, and finished product manufacturer capability, which we have the opportunity to tap into, and supply the Northern Hemisphere markets better as we move forward. There are also opportunities for Blis to cross licence the Probi strains and build out our finished product portfolio. And we see some exciting opportunities for us to do just that with the high quality Probi strains, moving forward.

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Looking at some of our key focus areas, both in the near term and longer term - our focus immediately is very much around rapid implementation of the growth opportunity we see within this agreement. We'll be quickly working with Probi to transfer our technology related to M18™ and K12™, to enable them to develop our strains under licence. We'll also quickly undertake training of the Probi field force, an extensive field force globally, to enable them to engage with customers and build and grow the opportunity for our strains globally. And then longer term, we will continue our endeavour and collaboration with Probi, focused on R&D, looking at how we leverage both parties' expertise in establishing a mutually agreeable R&D plan as we go forward.

Cross licencing will be a focus for us as we move forward, and how we can tap into the Probi technology and build out our portfolio of finished products under the Blis brand, and then also looking at opportunities to work with them in their co-manufacturing capability, so we can better service the Northern Hemisphere markets as we move forward.

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I want to talk a little bit about the use of the capital funds. As I've stated, we now have \$9.18 million in funds. Our focus for those funds as we move forwards will be looking to invest in accelerating our growth priorities, which we have communicated to the market several times through our year end annual reports and recent market updates. The priorities for us in the near term are around further investment in our skincare launch, and the activity to support the building of awareness and penetration of their attractive cosmetic skincare market. And also investing in our direct to consumer activity, supporting our endeavours within the US on Amazon, cross-border e-commerce to China consumers through our Tmall flagship store, Australasia and Canada being the other priorities for our direct to consumer e-commerce investment.

The funds will also be utilised to accelerate our new product development. We have exciting late phase new product development opportunities, the key one being our probiotic toothpaste, which we've previously announced to the market. So we will accelerate that and bring it to market as quickly as possible. We also see exciting opportunities in new strain development. We have a library of probiotic strains that we're rapidly screening, and we will move that through development as we go forward and use funds to accelerate that endeavour.

Finally, we see the opportunity to further build the capability within the business. We've recently brought onboard an e-commerce director. Funds will be allocated towards building out that team and their capability. But we also see the opportunity of bringing onboard further capability within our marketing team to drive our commercialization as we go forward.

Your first question comes from Hamish Edgar of Sinclair investments. Please go ahead.

Hamish Edgar: Hi. Thanks Brian. It's a superb announcement. Could you just give a little bit of colour in terms of where this relationship came from. Were Probi an existing smaller customer, or how did this relationship develop?

Brian Watson: Thanks, Hamish. That's a good opportunity to give a bit of context, actually. So Probi is our single largest customer within the US market. They currently utilise our strains for producing finished products for their customer base. They are extremely enthusiastic supporters of our strains, recognise the uniqueness they represent within the marketplace, and clearly see significant opportunity to continue to grow the opportunities with their customer base more broadly. Contextually, they have one individual that's been pursuing opportunities for our strains within the US market. They have a broader sales team that we will quickly bring on board and that will quickly open up new opportunities that both parties see as we go forward.

Hamish Edgar: Is there potential operational and/or logistics opportunities around this, in terms of manufacturing closer to market at a better sort of cost point, et cetera?

Brian Watson: As I've highlighted, they do have significant contract manufacturing capability within the US market, both at a fermentation level, when producing the probiotic ingredient, as well as contract manufacturing capability around finished products and delivering

in finished products. So there is an opportunity for us to leverage that and exactly as you say, operational efficiency, being closer to the key markets in the Northern Hemisphere as we go forward.

Hamish Edgar: Excellent. All right. Thank you very much. And congratulations again. Just a fantastic deal.

Brian Watson: Thanks, Hamish.

Your next question comes from Warren Head of MG Publications. Please go ahead.

Warren Head: Thank you. Good morning, gentlemen. And congratulations. As you're probably aware, I've been following your stock for some years now, and have thankfully used it in the winter time, and I've often wondered whether or not big contracts were the solution going forward. And I'm curious to know whether or not the Swedish group have downstream alliances with any large organisations, such as the health sector in Europe, or in United States, or indeed in governmental areas, in terms of mass use of a product, like police forces on the front line, et cetera. I wonder if I could have a comment about the relationship, in terms of scale, in the marketing sense? I mean, from a small New Zealand company, hooking onto a large Swedish conglomerate, but with a key product, it seems to me to be quite a big step up in terms of accessing their marketing reach. I'm not quite sure just exactly what yours is quite currently.

Brian Watson: Great question and it gives me the opportunity to talk to a bit of the strengths of Probi, absolutely in line with what you've characterised there. I'd invite you to have a look on the Probi website to review some of the recent collaborations, and longer term collaborations that they have announced. They have a very significant network of well-established brands and marketing organisations globally, particularly strong in the US market, the leading market for probiotics globally, but strong in Europe and rest of world as well. So one of the extremely attractive things of the relationship we've formed with Probi is that network and deep collaboration that they already have established, that our strains can essentially tap into as we go forward, and securing licence revenue as they do broaden that out and increase sales of our strains.

Warren Head: Quite obviously it would take enormous and unachievable amount of capital to achieve the position that they've got. You'd be looking at a decade long, or longer for a Kiwi company to get to that scale.

Brian Watson: Yes, that's absolutely right. This really does accelerate our scale and that's the strong intent from both companies as we go forward.

Warren Head: Can you give us a little bit of information please about the e-commerce on each side? You've mentioned, of course, the Tmall approach that Blis has, which is outstanding in terms of its reach. So there's something to offer back to the Swedish company in terms of access through your channels as well.

Brian Watson: A similarity between the two companies is that we both are dedicated probiotic specialists. We both are integrated, Probi being more fully integrated than us. But

where we've moved is very much around selling our own finished products as branded products, exactly as you say, within the e-commerce space. Probi is more focused on selling both ingredients and what you would characterise as private label offers to other brand owners. So there's a nice complementary piece there. We're not competing with each other. And what is attractive to Probi is the way we have more fully gone down the path of our own finished product sales into e-commerce.

Warren Head: Right. And I take it from that, that this agreement cuts back the other way as well, that you could market using a label Probi product as a Blis product in the marketplace.

Brian Watson: Yeah, that's absolutely part of the intent of the relationship, is that we have the opportunity to tap into their technology and private label offers into our own portfolio as we go forward. And the beauty of that, it just leverages our existing position across various e-commerce platforms and even in retail.

Warren Head: Right. Do you export from New Zealand by way of air freight? Is that how you move it out?

Brian Watson: Yes, we do. Yeah. The speed to market, temperature control, and so air freight is our method of moving product. I suppose the beauty of the product is they're relatively lightweight, high value goods to ship by air freight. Somewhat more challenging environments at the moment with air freight, because of COVID and the lack of passenger airlines, which was quite a bit of the capacity in air freight, but this relationship potentially builds some efficiency into the way we supply offshore markets.

Warren Head: Right. And finally, if I might, because I'm asking a few questions here, the intellectual property sits back home in New Zealand?

Brian Watson: Very much. We retain ownership of our intellectual property. Probi retains their own intellectual property. When we collaborate and combine, we have a process that we'll go through on how we both utilise combined strengths as we go forward.

Warren Head: Thanks very much.

Your next question comes from Mark Devcich of Pie.

Mark Devcich: Hi, Brian. Congratulations on the deal. Looks like a good one.

Brian Watson: Thanks Mark.

Mark Devcich: Just got a couple of questions. So firstly, what... Your sales into Probi in the US, I think you mentioned that they're your biggest buyer. How much does that represent of your US sales at the moment?

Brian Watson: We haven't disclosed that. All we're characterizing is that they are our biggest customer, and we see significant opportunity to grow with them from here. At this stage, we're not ready, we're not disclosing that level of detail, Mark.

Mark Devcich: Given that you're licencing the strains to them, does that kind of cannibalise your own ingredients business?

Brian Watson: No, we will continue to generate the revenue from the existing business they have. And then from that point build and generate revenue from new business, and it is a non-exclusive agreement. So we can continue to supply our other customer base, and continue to grow our outside of Probi customer base as well. And both parties are very comfortable with that process. So it's incremental and complementary to what we'll continue to do as we go forward.

Mark Devcich: Got it. Okay. And on the licencing, are you able to maybe give us some colour on how lucrative that is to you and also are there minimum levels that they have to meet?

Brian Watson: So it is attractive and we do retain, through the licence royalties, a very attractive return. And obviously that essentially goes to our earnings, bottom line. We've been able to negotiate a licence margin that is attractive for us, and is the reason we've gone forward with the agreement.

In terms of minimum levels they have to meet, they've given us forecasts as we go forward. Because it is a non-exclusive arrangement and we continue to build the rest of our business around it, there aren't actually minimums there, but there is a significant incentive for them to grow the business, and we see the clear opportunity to grow the business with them as we go forward.

Mark Devcich: How long will it take to licence their strains that they have into some new finished products that Blis will sell direct to consumer?

Brian Watson: We'll go through a process of putting their finished product offers, essentially, into our NPD process and work through our priorities, and where they sit. And there already are some attractive targets we see within that, but it will go through our process. The beauty of those product offers is their business model essentially is in creating private label, finished products that can be immediately drawn down and manufactured using their manufacturing. So the time to market is dramatically accelerated, because they're ready now type propositions, turnkey type propositions.

Thank you. There are no further questions at this time. I'll now hand back to Mr. Watson for closing remarks.

Brian Watson: Thank you everybody for taking the time to listen in, and thank you for the questions. We are more than happy to take any other additional calls of interest, but if not, thank you for your time and have a great day.

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