

Sydney, Australia and Columbus, OH, USA
31st January 2019: AHAlife Holdings Limited (ASX:AHL)

ANNOUNCEMENT OF ACQUISITION OF DESIGN MILK ASSETS AND BUSINESS UPDATE

The Board and Management of AHAlife Holdings Limited (**AHAlife**) (**ASX: AHL**) are pleased to announce that AHAlife has signed a binding agreement to acquire all assets relating to Design Milk, the globally recognised, US-based digital media platform dedicated to modern design. Today, AHAlife also releases its Appendix 4C – Quarterly Cash Flow Report for the period ending on 31st December 2018 (**Q2 FY19**) and trading update for the quarter just ended.

Acquisition of Design Milk

Founded by Jaime Derringer in 2006, Design Milk is an award-winning digital media platform bringing the latest news in art, architecture, interior design, furniture, decor, fashion, and technology from around the world to its large and engaged audience. The Design Milk audience includes 2.6M Instagram followers and almost 1.0M Facebook followers.

Total upfront consideration for the transaction is US\$0.77M, with US\$0.50M to be paid in cash and US\$0.27M to be paid in options in AHAlife. The transaction also includes deferred consideration of US\$1.13M, with US\$0.50M to be paid in cash 6 months from the date of completion, and US\$0.63M to be paid across three tranches of options in AHAlife, which vest in a minimum of 24, 36, and 48 months and are also subject to revenue hurdles. The Transaction Overview section in this announcement provides further information on the structure of the transaction.

Design Milk founder Jaime Derringer will join the AHAlife executive team as Chief Creative Officer post-completion.

“The Design Milk platform and websites, built over many years of unwavering focus on high-quality content, has become a globally recognised leader and authority on modern design. AHAlife is very excited to partner with Jaime and her team to continue bringing authentic and inspiring modern design news to the Design Milk audience. The AHAlife Board and Management, together with Jaime, see huge potential to expand the e-commerce capability within the Design Milk environment, providing further opportunity for our combined audiences to engage with the platform. In addition, we expect to see significant synergies from referral and other cross-promotional or experiential activities across the existing AHAlife lifestyle websites.” — Robert Mancini, AHAlife CEO.

Acquisition Highlights

- Design Milk is highly complementary to the value pillars upheld by AHAlife: conscious living, ethical sourcing, community, and craftsmanship
- With Design Milk founder Jaime Derringer joining AHAlife as Chief Creative Officer, AHAlife will further benefit from her extensive experience and network within the design industry
- Design Milk bolsters AHAlife's already strong category offering with a focus on modern design in the areas of art, architecture, interior design, furniture, decor, fashion, and technology
- The media platform expands AHAlife's revenue mix through the introduction of paid advertising
- The addition of Design Milk's online followers, including 2.6M Instagram followers and almost 1.0M Facebook followers, significantly increases the scale of AHAlife's engaged audience
- The acquisition delivers on AHAlife's stated strategy of lifestyle and product diversification through multiple brand websites supported by a single shared service platform
- Through many years of focus on authentic, high-quality content, Design Milk has built a highly engaged audience. AHAlife is committed to maintaining this loyalty and expanding Design Milk's position through the creation of additional design and lifestyle content verticals
- The Design Milk audience includes a number of different subscriber groups, including interior designers, architects, and other design industry professionals, which provide an exciting opportunity for AHAlife to expand its growing corporate and B2B business offerings
- The transaction provides significant revenue uplift potential for AHAlife. Design Milk will deliver positive operating cash flow within a year of acquisition

Strategic Rationale

Partnering with Design Milk is consistent with AHALife's objective to acquire businesses with complementary audiences, lifestyle and category expertise, or increased geographical awareness that can be leveraged across the AHALife technology platform. Design Milk aligns with these goals and represents an exciting opportunity for both businesses to expand their combined reach and lifestyle projections.

The source of Design Milk's audience is primarily through direct or organic channels, which represent potential e-commerce customers with a lower cost of acquisition. The addition of this audience to the AHALife platform is expected to significantly reduce the AHALife blended cost of customer acquisition.

The combined businesses are in a unique position to leverage AHALife's multi-brand shared services platform and Design Milk's digital media platform and large, highly engaged audience. Bringing these two together through a new Design Milk e-commerce platform and multiple lifestyle websites creates a significant opportunity for growth.

Transaction Overview

The structure of the transaction is as follows:

- Initial consideration of US\$0.77m, including:
 - US\$0.50M paid in cash, paid on the day of completion
 - US\$0.27M paid in options with a strike price of \$0 which are issued and vest on the day of completion. The number of options to be issued (rounded up to the nearest whole number) is equal to US\$266,666 divided by the prevailing 30 day AHALife volume weighted average share price as at the date of completion
- Deferred consideration of US\$1.13M, including:
 - US\$0.50M in cash paid in 6 months from the date of completion
 - US\$0.27M paid in options with a strike price of \$0 which are issued and vest when the combined AHALife Group achieves booked sales of US\$10.0M over a trailing 12 month period, after a minimum of 24 months. The number of options to be issued (rounded up to the nearest whole number) is equal to US\$266,666 divided by the prevailing 30 day AHALife volume weighted average share price as at the date of vesting
 - US\$0.27M paid in options with a strike price of \$0 which are issued and vest when the combined AHALife Group achieves booked sales of US\$12.5M over a trailing 12 month period, after a minimum of 36 months. The number of options to be issued (rounded up to the nearest whole number) is equal to US\$266,666 divided by the prevailing 30 day AHALife volume weighted average share price as at the date of vesting
 - US\$0.10M paid in options with a strike price of \$0 which are issued and vest 48 months post completion. The number of options to be issued (rounded up to the nearest whole number) is equal to US\$100,000 divided by the prevailing 30 day AHALife volume weighted average share price as at the date of vesting
- In addition to the above, the binding agreement includes guaranteed employment of Jaime Derringer for four years post-completion of the transaction

The final transaction structure is subject to change based on the satisfaction of all Conditions Precedent outlined below.

Implementation Plan

The AHALife and Design Milk teams have conducted several successful trial marketing collaborations together, delivering encouraging customer traffic and conversion rates. AHALife and Design Milk have also spent significant time together building a detailed plan to expand our individual businesses and core competencies to deliver a strong customer experience.

Design Milk founder Jaime Derringer will remain with the combined business, leveraging her experience, network, and deep understanding of the Design Milk customer base to further strengthen AHALife's brand relations whilst offering additional customer, supplier and lifestyle engagement opportunities.

Conditions for Closing

Conditions precedent for completion of the transaction include:

- Satisfactory completion of confirmatory due diligence;
- Written approval from customers and/or suppliers that "change in ownership" or "change in control" approvals have been obtained where required;
- Negotiation and finalization of a Share Purchase Agreement;
- The signing of new employment agreements with key Design Milk employees;
- ASX's confirmation in writing that re-compliance with Chapters 1 and 2 of the ASX Listing Rules is not required;
- AHAlife obtaining shareholder approval under the ASX Listing Rules (if required by the ASX);
- Receipt by AHAlife of tax structuring advice regarding final transaction structure; and
- AHAlife Board approval of the transaction.

The transaction is expected to close on or before 28 February 2019.

Q2 FY19 AHAlife Business Update

The management team of AHAlife were pleased with a near record month of booked sales in November 2018, a positive result driven by traditionally high Black Friday and Cyber Monday trading days that came despite relocation of the business during the previous quarter and the challenges associated with this transition.

The focus of AHAlife Management has been on continued improvement and sustainability of the core business model, ensuring we project a more curated assortment, competitive customer pricing, improved product margins, and an efficient forward-looking operational structure that can support multiple websites.

As a result of these aggressive adjustments and decision not to chase profitless sales through high discount offers, booked sales overall were lower than Q2 FY18, which also reflects weaker than expected holiday trading in December. This underscores the predicament of AHAlife's current position in the market and the challenge to generate sales that deliver profits.

Product margin continued to improve, with % product margin lifting 2.2 percentage points compared to Q2 FY18, reflecting the ongoing focus to edit and grow our higher-margin brands and categories.

A higher product margin also drove a 1.1 percentage point increase in gross margin, despite a slightly higher rate of cancellations and returns which was offset by a 4.1 percentage point decrease in overall discount offer rate. In aggregate, this led to a flat quarterly EBITDA loss for Q2 FY19 on Q2 FY18 despite the reduction in booked sales.

Key Metrics

| (USD \$M) | Q2 FY19 | Q2 FY18 | Change |
|-------------------------|----------|----------|----------|
| Normalized Booked Sales | \$1.8M | \$2.5M | (\$0.8M) |
| Product Margin | 48.6% | 46.5% | 2.2% |
| Cancellations & Returns | 9.3% | 6.0% | 3.3% |
| Offers | 15.5% | 19.6% | -4.1% |
| GM% | 41.5% | 40.4% | 1.1% |
| EBITDA | (\$0.5M) | (\$0.5M) | \$0.0M |
| Closing Cash | \$2.3M | \$5.2M | (\$3.0M) |

Outlook

In assessing its businesses development, the board and management have continued to evaluate the positioning of AHAlife to develop a more focused identity and generate profitable growth. The acquisition of Design Milk draws upon many of the attributes that make AHAlife an attractive marketplace platform while permitting the company to expand across a substantial, targeted and engaged audience. This will support AHAlife in meeting its objective of being the leading design focused e-commerce platform, but doing so in a more cost-efficient manner than could be achieved organically. The acquisition of Design Milk is a significant step in this transition to achieving our objectives and deliver shareholder value over time.

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For further inquiries, please contact:

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Investor Relations:

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About AHAlife

AHAlife Holdings Limited (ASX: AHAlife) owns and operates a proprietary eCommerce marketplace for the premium lifestyle goods market. The Company currently operates two curated dropship marketplace brands (Ahalife and Kaufmann Mercantile) within its proprietary technology. Each brand consists of carefully selected designers and artisans who create and manage curated storefronts offering premium items in the categories of Women, Men and Home.

Customers can choose from a virtual catalogue of over 80,000 items from 4,000+ carefully selected independent and emerging designers from all over the world who ship directly to the customer.

For more information, please contact AHAlife Investor Relations.

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

AHALIFE HOLDINGS LIMITED

ABN

15 006 908 701

Quarter ended ("current quarter")

31-Dec-18

| Consolidated statement of cash flows | Current quarter \$US'000 | Year to date (6 months) \$US'000 |
|---|-------------------------------------|---|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 1,308 | 2,182 |
| 1.2 Payments for | | |
| (a) research and development | (865) | (1,543) |
| (b) product manufacturing and operating costs | (392) | (579) |
| (c) advertising and marketing | 88 | 171 |
| (d) leased assets | (338) | (654) |
| (e) staff costs | (287) | (547) |
| (f) administration and corporate costs | | |
| 1.3 Dividends received (see note 3) | | 0 |
| 1.4 Interest received | | (6) |
| 1.5 Interest and other costs of finance paid | (4) | |
| 1.6 Income taxes paid | | |
| 1.7 Government grants and tax incentives | | |
| 1.8 Other (provide details if material) | | |
| 1.9 Net cash from / (used in) operating activities | (490) | (976) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | | |
| (b) businesses (see item 10) | | |
| (c) investments | | |
| (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 (see note 3) | | |
| 2.5 Other (provide details if material) | | |
| 2.6 Net cash from / (used in) investing activities | 0 | 0 |
| 3. Cash flows from financing activities | | |
| 3.1 Proceeds from issues of shares | | |
| 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 | | |
| 3.5 Proceeds from borrowings | | |
| 3.6 Repayment of borrowings | | |
| 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 | 0 | 0 |

+ See chapter 19 for defined terms

1 September 2016

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| Consolidated statement of cash flows | | Current quarter \$US'000 | Year to date (6 months) \$US'000 |
|---|--|-------------------------------------|---|
| 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 | 2,751 | 3,237 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (490) | (976) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | 0 | 0 |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 0 | 0 |
| 4.5 | Effect of movement in exchange rates on cash held | 0 | 0 |
| 4.6 | Cash and cash equivalents at end of quarter | 2,261 | 2,261 |

| 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 \$US'000 | Previous quarter \$US'000 |
|------------|--|-------------------------------------|--------------------------------------|
| 5.1 | Bank balances | 2,261 | 2,751 |
| 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) | 2,261 | 2,751 |

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

| Current quarter \$US'000 |
|-------------------------------------|
| 0 |

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

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 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

| Current quarter \$US'000 |
|-------------------------------------|
| 0 |

8. Financing facilities available

Add notes as necessary for an understanding of the position

- 8.1 Loan facilities
- 8.2 Credit standby arrangements
- 8.3 Other (please specify)
- 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.

| Total facility amount at quarter end \$US'000 | Amount drawn at quarter end \$US'000 |
|--|---|
| | |

| 9. Estimated cashflows for next quarter | | \$US'000 |
|--|---|-----------------|
| 9.1 | Research and development | 0 |
| 9.2 | Product manufacturing and operating costs | (702) |
| 9.3 | Advertising and marketing | (206) |
| 9.4 | Leased assets | 88 |
| 9.5 | Staff costs | (327) |
| 9.6 | Administration and corporate costs | (279) |
| 9.7 | Other (customer receipts) | 850 |
| 9.8 | Total estimated cashflows | (576) |

| 10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above) | | Acquisitions | Disposals |
|--|---|---------------------|------------------|
| 10.1 | Name of entity | | |
| 10.2 | Place of incorporation or registration | | |
| 10.3 | Consideration for acquisition or disposal | | |
| 10.4 | Total net assets | | |
| 10.5 | Nature of business | | |

Compliance statement

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

Sign here:  Date: 31 January 2019
 (Director/Company secretary)

Print name: Andrew Whitten

Notes

- 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. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
- If 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
- Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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