BLACKMORES | GROUP

ASX Announcement
1H FY23 Results

Blackmores Group delivers 17% increase in Underlying Net Profit After Tax to $24.4m

Strong balance sheet supports interim dividend of 87.0 cents per share, up 38%

1H FY23 HIGHLIGHTS

- **Solid first half result compared to very strong prior corresponding period which included COVID-19 surge primarily in the International segment:**
  Group net sales (-1.6%); Group EBIT (-5.5%)

  Excluding COVID-19 surge, Group net sales +3.0% and Group EBIT +28.4% vs 1H FY22
- **Sales and earnings growth momentum continues in Australia / New Zealand with margin accretion**
- **Solid performance in China with further COVID-19 restrictions easing towards end of half**
- **Remain on track to deliver $55m of gross annualised savings by end FY23 with next phase savings targeting an initial $34-44m in gross cost savings over FY24 – FY26**
- **Balance sheet remains strong –** supports interim dividend of 87.0 cents per share, fully franked and increased dividend payout range from 30-60% to 40-70% of statutory NPAT
- **Group Underlying NPAT:** $24.4m up 17.3% on pcp; **Statutory NPAT:** $24.3m up 19.6% on pcp
- **Clear focus on shareholder returns: Underlying EPS up 17.0% to 125.4 cents**

RESULTS OVERVIEW

Blackmores Limited **(ASX: BKL)** today announced its financial results for the half year ended 31 December 2022 **(1H FY23).**

Chief Executive Officer, Alastair Symington said "Blackmores delivered a solid result with continued revenue and earnings growth momentum in its Australia/New Zealand and China segments offset by its International segment which lapped a very strong prior corresponding period (pcp) that primarily included COVID-19 demand surge for immunity products.

"The Company has announced a strong interim dividend of 87.0 cents per share fully franked, an increase of 38%, with an increased dividend payout range.

"Our teams have continued their disciplined focus on execution with improved customer service levels and continued new product and brand innovation which drove market share and distribution gains across our core geographies.

"Operational expenditure reduced by 6.3% while we remain on track to achieve our target of $55 million annualised gross cost savings by the end of FY23 with $6 million in savings delivered during the first half.

"Today we have also outlined the next phase of cost savings targeting an initial $34-44 million in further gross cost savings over FY24 – FY26.

“While the near-term operating environment remains somewhat uncertain with continuing themes of cost inflation and rising interest rates impacting consumer sentiment and behaviour, we remain focused on executing our strategic and commercial plans and leveraging the Group’s channel and geographic diversity.”

GROUP FINANCIAL RESULTS

Revenue for the first half was $338.0 million, down 1.6% on pcp with sales growth in both the Australia / New Zealand and China segments, offset by the decline in revenue from the International segment.

Amidst a higher cost inflationary environment, underlying gross margin declined from 53.9% to 53.3% with margin improvement in Australia / New Zealand and China, offset by lower gross margin in International due to the strong pcp comparison. However, compared to 2H FY22, gross margin was up +1.5ppts, as Blackmores continued to focus on high-margin new product development, optimising price / product mix and trade spend, and Cost of Goods sold (COGs) efficiency programs.

Underlying Group EBIT declined by 5.5%, reflecting the decline in International due to the strong pcp comparison, partially offset by improved earnings in Australia / New Zealand and China. EBIT in 1H FY23 also included a 17.6% increase in advertising and promotion expenses, as the Company stepped up investment behind its core brands including reinstatement of the Blackmores Sydney Running Festival. The Company remained disciplined on operating costs with operating expenditure of $137.2 million down 6.3% from reductions in employment expenses and professional and consulting expenses together with lower freight costs and the delayed start of certain Cloud IT projects.

Underlying Net Profit After Tax increased by 17.3% to $24.4 million with Underlying Earnings Per Share increasing by 17.0% to 125.4 cents per share. The increase in Net Profit reflects the higher proportion of earnings from Australia / New Zealand and China vs the Indonesia JV compared to the pcp.

Blackmores reported a statutory continuing Net Profit After Tax of $24.3 million, up 19.6% from pcp.

BUSINESS UNIT RESULTS:

AUSTRALIA AND NEW ZEALAND (ANZ)

Continued revenue and sales growth momentum with margin expansion

Australia and New Zealand revenue increased by 3.9% to $150.8 million. When minor sales of contract manufactured product from the Braeside facility are excluded, sales to retail customers and consumers increased by 5.6% compared to pcp.

Average price increases of 5-6% were implemented during the period, which together with supply chain cost savings, largely offset cost inflationary pressures.

The Group recorded market share improvements during the first half in Blackmores as the brand campaign “Good Health Changes Everything” drove continuous improvement in brand metrics. BioCeuticals performed well in the Pharmacy channel which partially offset a decline in allied health as we experience channel contraction post COVID-19.

Blackmores, BioCeuticals and PAW brand health measures remain strong, with Blackmores retaining its number one[1] market position in Australia in key segments.

Gross margin increased 2.4 ppts from continued product mix and trade spend efficiencies. Average price increases of 5-6% were implemented in the half.

[1]IQVIA Total Aus Scan Sales VDS Category (Grocery & Pharmacy) – FYTD to 31/12/22

Higher advertising and promotion investment behind core brands, together with a continued focus on operational efficiency resulted in underlying EBIT growth of 5.0% to $27.4 million. Underlying EBIT margin lifted by 0.2 ppts to 18.2%.

CHINA

Solid performance despite continued lockdowns - Blackmores improves to #3 in top VDS brands on CBEC platforms during Double 11

Revenue in the China segment increased by 6.1% to $93.7 million (6.1% in constant currency).

Cross border e-Commerce channel (CBEC) revenue was steady on pcp and aligned with category growth, while revenue from the Corporate Diagou[2] channel showed early signs of recovery.

The Double 11 e-Commerce shopping festival continued to be a key contributor to the 1H FY23 result with Gross merchandise value (GMV) sales from e-Commerce platforms up 19% on pcp.

This solid performance reflects ongoing investment in innovation and in local capabilities to deepen CBEC and digital health performance, with key products driving growth during the period including premium fish oil and eye health.

Blackmores improved its brand position to #3[3] in the top VDS brands across all CBEC platforms in China during the Double 11 festival.

Gross margin was up 1.9 ppts with price initiatives and favourable mix offsetting COGs challenges.

Underlying EBIT increased by 9.8% to $9.0 million with Underlying EBIT margin up 0.3 ppts to 9.6% benefitting largely from continued operational efficiency.

INTERNATIONAL

Blackmores' first half performance lapped a very strong prior corresponding period which primarily included COVID-19 surges in International

Revenue declined by 15.1% compared to pcp (15.6% in constant currency) to $93.5 million. In line with previous advice on lapping significant COVID-19 surges, Indonesia revenue declined. Malaysia and the Export business also experienced revenue decline. Revenue in Thailand was steady compared to pcp.

Despite the sales decline, market share and brand strength continued to increase in the six-month period with distribution and market share gains in Indonesia. In Thailand, Blackmores maintained its leading VDS brand position while regaining its number one position in Malaysia[4].

Underlying EBIT declined by 40.2% to $11.0 million which was impacted by lower sales. Underlying EBIT margin was similarly impacted by the strong pcp comparison, down 4.9 ppts to 11.8%.

COST SAVING INITIATIVES

On track for $55m in annualised gross cost savings by end of FY23 with $6.0 million in gross savings delivered during the first half

The Group remains focused on optimising its supply chain to ensure continued supply to customers, while generating efficiencies to offset inflationary pressure on COGs.

As a result, Blackmores is now implementing the next phase of its cost savings programme. We have identified an initial estimate of $34-44 million in additional gross cost savings over FY24-FY26. In

[2] Corporate export business
[3] Smart Path China VDS Ecommerce Market Share data for the period ending Nov 2022
[4] IQVIA / Nielsen; Scan data to 31/12/2022

addition, work is underway to identify and validate further cost savings which we expect will be updated with the FY23 results.

BALANCE SHEET AND CASH FLOW

Strong financial position maintained to support growth initiatives

Blackmores has a net cash balance of $75.1 million as at 31 December 2022, much of which is required to fund growth in International markets and investments in Technology and Digital.

The reduction in operating cash flow before interest and tax of 61.7% to $18.8 million reflects the lower EBITDA and the Group's planned increase in inventory to ensure product availability in anticipation of a COVID-19 surge in demand which did not materialise in the half. Inventory also increased to ensure ongoing product availability for customers which helped to deliver improvements in customer service levels during the period. The Company expects inventory to reduce progressively.

Capital expenditure of $4.8 million was 16.7% higher than pcp, reflecting spend on capacity upgrades at Braeside, maintenance and efficiency projects across IT and cyber-related investments. Operating expenditure of $2.0 million, that previously would have been treated as capital expenditure, was incurred in the half relating to cloud computing investment.

DIVIDEND

Continued focus on shareholder returns – interim dividend of 87.0 cents

The Board declared a fully franked interim dividend of 87.0 cents per share, up 38.1% on 1H FY22. This represents a dividend payout ratio of 69.7% of statutory NPAT.

The record date for the interim dividend is 9 March 2023 with scheduled payment on 28 March 2023.

As a result of the Company's ongoing strong balance sheet, the Board has determined an increase in the dividend payout range from 30%-60% to 40%-70% of statutory NPAT.

In addition, the Company's Dividend Reinvestment Plan (DRP) will not apply to this interim dividend.

OUTLOOK

For the remainder of FY23, markets are expected to remain somewhat uncertain with continuing themes of cost inflation and rising interest rates impacting consumer sentiment and shopper behaviour.

Within this environment, Blackmores remains focused on executing its strategic and commercial plans and leveraging the Group's channel and geographic diversity.

In Australia / New Zealand, the Group will continue to invest in its core brands and execute its pipeline of higher-margin new products while implementing price / mix strategies to help offset further inflationary pressure.

In China, while COVID-19 restrictions have eased since December 2022, it remains too early to assess the impact on post lockdown consumer behaviour. Blackmores will remain focused on leveraging its strong brand across e-Commerce platforms and driving premiumisation in fish oil and further new product development.

In International, we will keep monitoring market activity within category segments with slower growth. Blackmores continues to execute our new product development across all markets. In Indonesia, additional focus remains on expanding distribution through the independent pharmacy channel and enhancing value per store. In Malaysia, growth in modern trade is expected to be partially offset by slower growth in independent pharmacies. Blackmores will continue to focus on consolidating its market leading position in Thailand.

The Group will continue the development of significant Technology and Digital improvements.

Blackmores will successfully complete phase one of its gross annualised cost savings in FY23. The Group is now implementing the next phase of its cost savings programme and has identified an initial $34-44 million in additional gross cost savings over FY24-FY26. In addition, work is underway to identify and validate further cost savings which we expect will be updated with the FY23 results.

ENDS

This announcement was authorised for release by the Board of Directors.

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