



## **Vita Life Sciences Limited – 2017 Annual General Meeting**

### **Address by the Managing Director - 18 May 2017**

Thank You Henry,

#### **Slide 2: Managing Director Review**

Thank you all for joining us today.

It's a pleasure to provide an update on the company's F16 performance, however more importantly, I will be providing you with insights into the growth platform we will be setting the business moving forward.

I would firstly like to acknowledge and thank the Board for the trust they have placed in me to take the company into the future. That said, it would be remiss of me if I didn't acknowledge Mr Eddie Tie, the company's previous Managing Director for the significant contributions he has made to the organisation over the past 12 years.

Eddie entered the business at a very difficult period, and through his leadership he has ensured the foundations of the business are in very good shape.

#### **Side 3: Platform for Growth**

I am very excited to be appointed to the position of Managing Director of Vita Life Sciences.

My appointment signals a significant period of change for the organisation. The board and management acknowledge the importance of setting a strategy agenda that supports growth within the business.

To drive the companies long term growth agenda, it's critical to ensure the senior leadership team is built out and structured appropriately.

The company has appointed Mr Chinn Khoo as the group Chief Financial Officer. Mr Khoo is a chartered accountant, holds an MBA and has over 27 years' experience in both Australia and Asia. Mr Khoo will bring significant financial acumen to the leadership team.

To round out the senior management team, the company is currently recruiting to secure a CEO to manage our South East Asian markets. This will be a crucial role in driving the performance for both the established and emerging markets within the region.



The market place is continuing to evolve and change at a much faster pace, and as such, we as an organisation must do the same.

The business is currently undergoing a comprehensive strategic review of its operations and brand engagement for the core markets including Australia, Malaysia and Singapore. The review will be completed within the first half of 2017.

In addition, the Malaysian central facility will move into the next stage of completion with the incorporation of a packing line which will provide greater direct control over the supply chain of our Malaysian SKU's and South East Asian range.

A significant note in terms of our growth aspirations, is the distribution announcement between Herbs of Gold and Jointown Pharmaceutical Group Limited. Herbs of Gold is now well placed to enter the China market as a result of entering into this exclusive arrangement for the distribution of products in China.

We are aiming to build a successful long term partnership with Jointown which is one of China's largest pharmaceutical distribution companies. I will provide more background on Jointown later in the presentation.

#### **Slide 4: Business Overview**

I'm sure most of you in the room are familiar with our business model.

Vita Life Sciences is an Australian and Asian Pacific based healthcare over the counter business involved in the formulating, packaging, sales and distribution of vitamins and supplements.

- We have 4 major brands
- Over 800 registered products sold in 7 countries
- Over 400 employees
- Listed since 2007 on the ASX (ASX:VSC)

#### **Slide 5: Markets**

Vita Life Sciences (VLS) has market coverage across 7 countries. The core markets in which VLS operates include Australia, Malaysia and Singapore. The remaining countries being Thailand, China, Vietnam and Indonesia remain strategic emerging markets.

I will provide a segment performance update for those respective countries during the presentation. It should be noted that the company does recognise the importance of



continued investment into those developing markets. Whilst the sales contribution remains small, the emerging markets have been identified as key pillars for our future growth prospects.

#### **Slide 6 Group Snapshot**

Turning to the results for FY16. Vita Life Sciences recorded revenue of \$37.9m and EBIT of \$5.7m in FY16, down 1.8% and 6.5% respectively on FY15. The Underlying EBIT result was influenced by a one-off cost of \$0.4m to the retiring Managing Director. That said, both sales and EBIT results are flat on FY15.

Based on sustained margins and EBITDA performance the directors have declared a final dividend of 2.25 cents per share (unfranked) for the 2016 financial year. This brings 2016 total dividend to 3.75 cents per share (2015: 3.75 cents per share).

#### **Slide 7: Group Snapshot Continued**

The company's underlying financial fundamentals remain strong and provide a great platform for profitable growth aspirations into the future.

Pleasingly, the group continued to generate substantial gross operating cash of \$5.4m, including a cash conversion ratio above 90%.

Continued prudent financial management generated a net cash balance sheet, whilst returning \$2.3m to shareholders through dividend payments and share buyback scheme.

Group borrowings remain low at \$2.5m associated with the Malaysian facility.

Working capital remains strong at \$14.9 million to fund growth and expansion.

Management acknowledges that sales and profitability of the business have been flat between 2014-2016, with sales CAGR of 1.7%. The mandate from board moving forward is clear, that is to grow sales and increase profitability. For this to be achieved, the key focus areas will be as follows:

- 1- Build out the team including A&P investment for Thailand and Indonesia
- 2- Review the structure and strategy of the MLM business model
- 3- Increase channels of distribution in core markets (Australia, Malaysia and Singapore)
- 4- Dive future revenues for the Herbs of Gold brand in China through Jointown



### **Slide 8: Australian Snapshot**

The financial results from Australian operations were pleasing with a record EBIT increasing to \$3.8m, up 23.3% on FY15.

The revenue base of the Herbs of Gold brand was sustained in a competitive environment, and rollout of the VitaScience brand in the pharmacy channel continued. The sale of Herbs of Gold under international distribution agreements continues to develop and evolve in line with China's regulatory environment.

Strong EBIT was achieved as a direct result of the focus on high quality products and continued leveraging of the fixed cost base.

The primary strategy for Australia in 2017 remains unchanged.

This policy positions the group for long term growth and sustainability in a mature and competitive market.

### **Slide 9/10: Jointown Pharmaceutical Corporate overview**

Background and video on Jointown was presented to paint the picture of the size and scale of the organisation that Vita Life Sciences has partnered with in China.

### **Slide 11: Herbs of Gold brand story**

To support the brand story in China, Herbs of Gold has created a brand story video to sell the attributes of our products to the Chinese consumers.

### **Slide 12: Malaysia and Singapore snapshot**

#### **Malaysia**

Revenue and EBIT declined by 1.3% and 8.1% respectively when compared to FY15. However, when measured in local currency, Malaysian Ringgit, revenue increased by 7.5% and EBIT was down by 5.2%.

The revenue base was sustained in continued difficult economic and trading conditions, however, EBIT margins were impacted by aggressive competitive pressure requiring an increase in trade and promotional investment.

Overall, the Malaysian result is satisfactory given the difficult economic and trading conditions in FY16.



### **Singapore**

Revenue and EBIT declined by 6.3% and 23.9% respectively in FY16 after a strong result in FY15. Revenue and EBIT margins were impacted by challenging trading conditions and aggressive competitive pressures. Advertising and promotional expenses were increased to maintain retail support.

### **Slide 13: Other Asia**

Revenue in the Group's expansion markets, namely China, Thailand, Indonesia, Vietnam contracted to \$2.2m in FY16, or by 5.8% when compared to FY15. The modest contribution from these markets is primarily attributed to the inability of the group to obtain registration of products in China under its new regulatory regime, combined with a reduction in revenue from the Multi-Level Marketing business.

Vietnam was a standout performer in the region and the company is encouraged with its potential growth prospects.

The company will continue to invest into the emerging markets and takes a longer-term view about their future contributions to the group.

### **Managing Director closing comments**

In closing, I would like to thank all the hard-working staff of Vita Life Sciences over the months. The company is entering and period of change to ensure we are both structured and positioned for growth into the future. Once again, I would like to acknowledge and thank all shareholders and trust that your support continues well into the future.

Thank you for your attention and I will hand back to the chairman.

**Andrew O'Keefe**

Managing Director

18 May 2017