



ASX / BWX

## ASX Announcement

31 October 2018

### CHAIRMAN'S & CEO ADDRESS AT 2018 AGM

Melbourne, Australia – BWX Limited (ASX: BWX)

Please find attached the address to be given by the Chairman and the MD / CEO of BWX at the Annual General Meeting to be held today.

- ENDS -

### About BWX

ASX listed, BWX Limited is a vertically integrated developer, manufacturer, distributor and marketer of branded Natural personal & beauty care products.

The company owns, produces, and distributes under the Sukin, Andalou Naturals, Mineral Fusion, Life Basics, Derma-Sukin, Uspa, Edward Beale, and Renew personal care brands as well as the Nourished Life online marketplace.

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**BWX LIMITED - 2018 ANNUAL GENERAL MEETING - 31 OCTOBER 2018****Mr Ian Campbell - Chairman**

Ladies and Gentlemen,

Before I hand over to Myles, I would like to make a couple of brief comments.

Firstly, I would like to acknowledge Denis Shelley's contribution to the Company.

Denis has served for over 5 years, initially, as a Director and Chairman of Beautiworx Pty Ltd and then as Director and Chairman of the listed entity BWX Ltd. He oversaw the acquisition of the Sukin business post the IPO of BWX in November 2015 and in more recent times the acquisition of the Nourished Life, Mineral Fusions and Andalou Brands. Denis is a valued Board member and has provided me with valuable insights and assistance as I transitioned into the Chairman's role in September.

Whilst on the issue of Directors, I would also like to advise all shareholders that we are well advanced in our search for two new Non- Executive Directors. We expect to announce details of those appointments before the end of November. The skills and experience of the successful candidates will enable us to appoint an appropriately qualified Chairman of the Audit Committee and an FMCG/Retail Executive, with experience relevant to this business.

I would also like to say that the period from the Bain consortium's bid for the Company in May, up until the failure of the bid in mid-September, has been extremely disruptive and expensive for the business.

Your Board had no idea that a bid was contemplated, and we didn't see it coming. The dedication of our Executive staff and the entire BWX team, has throughout this process, been outstanding. They have all worked under the most extreme demands on their time and shown total commitment to meeting customers' needs, irrespective of the ownership outcome. Myles and Vinod have shown great leadership of the organization and the Directors acknowledge their dedication to the task they inherited.

I would now like to hand over to Myles to update you on our future

**Mr Myles Anceschi – CEO & Managing Director**

Good morning Ladies and Gentlemen,

Ian, thank you for the introduction. Further to Ian's comments I wanted to thank the broader shareholder community for their support & patience.

We fully understand the requirement to reward this support with improved transparency, consistency and execution. Management remains confident of improving ongoing shareholder value via execution of our strategic plan.

I have a high level of confidence in the outlook, and excitement for the potential within the business. We are building a talented management group and have category leading brands, supported by a macro environment that will favour natural products. After this period of disruption, we will enter H2FY19 with acquisitions largely integrated and a clear pathway to delivering business improvements and returns in a "business as usual" mode.

**TRADING UPDATE****1H19 to be impacted by change programs, platform improvement and MBO process impacts (note: this is consistent with the update provided 29 October 2018)**

The beginning of the financial year has seen solid progress towards the completion of change programs that are critical to strengthening our operating platform and to sustaining future growth.

Unfortunately, the period has not been without its challenges. These can primarily be linked to the disruption and loss of business momentum flowing from the failed MBO process.

The MBO process was a significant drain on management time and resources at a critical period when several platform improvement projects were in execution phase.

I will now outline these impacts in more detail.

**ERP – Microsoft Dynamics365 – Live July 1<sup>st</sup>, 2018 impact on AU domestic sales.**

The ERP is the central planning and organisational system that connects all business processes. It is critical across the business, for procurement, production, warehousing, shipping and selling our brands.

This initiative is aimed at moving the entire business to a single global ERP, versus the current 3 ERP's – delivering business process efficiency and insights to drive improved decision making.

The initial planning timeline for resumption of normal operations after "go-live" was mid-late August. Ultimately normal operations were resumed in early October – resulting in a 6-8-week impact on sales (primarily Sukin and Nourished Life) and materially higher Opex to ship lower volumes.

Significant impact from this delay was seen across the business, including but not limited to; Sukin Q1 ex warehouse sales, Nourished Life Q1 ex warehouse sales,

increased warehouse and logistics costs for both businesses, the delay of the Sukin roll out in Kmart, delayed execution of the in-store element of the Sukin “Nothing but Special” advertising campaign, China pre-11/11 festival ex-factory sales and lower production efficiencies.

### **Acquisition integration program**

Though the organisational platform has largely been integrated, our multi-brand selling platform development has been delayed. This impacts internal sales planning, and conversations with key retail partners – ultimately delaying execution and resulting in lost sales.

### **Nourished Life Warehouse Relocation**

This relocation was vital to increase daily order capacity and reduce operating costs per-parcel. We relocated from a very small, non-automated facility on the central coast of NSW to a state of the art, purpose-built operation in Dandenong South, Victoria. This facility is now live and has increased capacity by 4X – however the relocation period saw lower sales and higher costs due to limited order capacity and moving-related expenses.

### **USA Warehouse consolidation**

We have recently consolidated our US logistics footprint from 5 operating warehouses to a single USA facility. This move will deliver greater operating leverage, lower occupancy costs and improved logistics cost leverage. However, the transition saw some interruption to USA shipments and a higher cost to serve per-consignment.

### **APAC and USA Talent acquisition**

As a growing business with a mandate to increase capacity and capability, we are constantly adding new talent. Several key leadership appointments in APAC and North America have been delayed due to the MBO process. I am pleased to announce we have now filled the APAC roles with talent capable of delivering target outcomes – and that our North American team will be complete by the end of Q2. Both processes were delayed by 12 weeks due to the MBO.

### **Mineral Fusion Re-branding**

This rebranding project is important in preparing the Mineral Fusion brand for success outside the natural channel. Natural Colour cosmetics is a high opportunity segment, and the brand must have a “look and feel” that competes with major synthetic offers from global players. Originally intended for release in the USA on 1<sup>st</sup> October 2018, this release will now occur on 1<sup>st</sup> January 2019. We are excited about the potential of this new livery and believe it will generate meaningful momentum for the brand in all active markets in the 2<sup>nd</sup> Half.

These initiatives are vital to sustain future growth and generate ongoing efficiency and leverage. Our balance sheet remains strong and capable of supporting our growth plans. I am pleased that as at today, all projects are back on track and essentially complete (excepting the North American roll out of the ERP which will occur in Q4 FY2019). However – due to the scale of these projects, and hence the scale of the impact from disruptions, there has been a material effect on H1 revenues and costs.

Therefore, taking all this into consideration the Company expects underlying earnings before interest and tax (EBITDA) for the 2019 financial year (FY19) to be broadly in line with underlying EBITDA of \$40.3m in the 2018 financial year (FY18). The company also expects a significant skew in earnings to the second half, which is expected to account for approximately 70% of FY19 EBITDA. This guidance is consistent with the update we provided to the market two days ago.

To give some further insight into how the MBO process and the items outlined have such a marked impact on H1FY19 (and why we have confidence in H2FY19);

- The largest impact to revenues from the ERP delay was in the Sukin business this is the highest margin segment of the business and consequently impacts EBITDA
- The second largest impact from the ERP roll out was in the Nourished Life business unit, negating the annualisation of ownership in H1
- These two negative impacts are only partially offset by the annualisation of ownership of the Mineral Fusion and Andalou Naturals brands due to the delays in integration and Mineral Fusion re-branding
- The warehouse relocations, along with higher Opex from normal operations due to the ERP all add meaningful costs, further depressing EBITDA in H1FY19

## **IMPROVEMENT IN H2 AND LOOKING TO THE FUTURE**

### **A strengthened platform, strong consumer sales and acquisitions performing.**

Though H1 will be below last year it is essentially a period of re-set and reinvestment in sustaining future growth. We remain confident that our brand portfolio is strong, and we have a pathway to sustainable growth from execution of our strategy.

Positively we will enter H2 with all major projects complete – and the business operating at improved capacity. We have energised the team post MBO process, and momentum is building.

This confidence is supported by key consumer facing data points. Our categories are growing in all active markets – and the natural segment is outpacing category growth. Retailer interest in the natural segment outside our “traditional” channels remains high – and we are confident our brand strength and multi-brand “category” model will gain support with key partners.

Our market shares remain dominant for all core brands - this is the key indicator of brand health. We are confident our innovation and work in category will strengthen these market shares further over time.

### **Markets - Acquired businesses**

Today marks the 1<sup>st</sup> anniversary of ownership for the full suite of acquired businesses. This is an important milestone – for revenue and earnings growth as well as organisational development. All integrations require application, and a certain degree of patience. Despite the significant disruption during a critical time for the integrations, we are satisfied that the platform is strong, the business units are working well together, and we can continue over time to share learnings and deliver operating leverage.

Mineral Fusion – as referenced earlier, we have “slowed down to speed up” with this brand – electing to strengthen the brand platform prior to driving growth in distribution and awareness. The brand continues to perform well in active accounts and markets, and is delivering growth versus PCP which we can accelerate post the re-launch.

Nourished Life – despite the significant disruption to business operations from the warehouse relocation and ERP implementation, the platform is in remarkable health. We have some work to do to regain customer faith after this period of disruption – but our daily orders are growing, our basket size remains strong and we now have capacity to support ongoing domestic and potentially international growth

Andalou Naturals – the brand continues to perform well, with recent innovation showing exciting early traction. Interest outside the Natural channel in the US remains high, and the brand will benefit from ongoing channel and geographic expansion, a strong innovation pipeline and significant operating leverage from manufacturing and procurement.

### **Markets - AU Domestic / Sukin**

The Sukin brand remains healthy and is growing in all key consumer sales metrics. This consumer sales growth is supported by our strong performance in grocery, partially offset by softness in community pharmacy sales. Our recent innovation is achieving targets, and is well supported by the recent “Nothing but Special” advertising campaign – aimed at promoting conversion from synthetic brands, and reinforcing our natural credentials

### **Markets – UK & Canada**

Both markets remain extremely buoyant – with consumer sales growth versus PCP in Boots, Holland and Barrett and key Canadian outlets outpacing both the natural segment, and the broader Category. These strong sales results are leading to increased distribution and support the revised approach to Export market entry. Both markets will benefit from execution of our multi brand model via trade relevance and operating leverage.

### **Markets – China**

In-platform consumer sales with key partners such as TMall, Kaola, VIP and JD.com remain strong versus PCP. We are confident our partner and consumer work leading into the festival season and the 11-11 event will deliver strong YOY growth. While our execution was impacted by our ERP roll-out as referenced earlier, we remain confident of exciting results

versus FY18. Our revised trading partner network (reducing from 12+ to 3 domestic trading partners) is showing early signs of delivering the intended outcomes – we maintain a watch and see on this model in the broader China context and continue to explore the significant future potential in registration for bricks-and-mortar sales without animal testing.

### **Markets – Other Export**

In line with commentary at the 2018 financial results our approach to Export has changed significantly – to a “fewer, better” approach. This means total export sales in H1 will decline versus PCP as we cycle over the last period of the former approach. However, our early success in the USA with Sukin distribution gains, and our recent launch in the Middle East, are representative of the benefits of a more focused “less is more” approach which should be more capital efficient for the business going forward.

### **Marketing & Innovation – our core driver of future brand success.**

This area of the business - though impacted by the MBO process – provides a great level of excitement due to the potential for new sales, from new consumers, in new segments. Our innovation teams continue to deliver high-quality natural products that support consumer conversion from synthetic to natural products. Our innovation continues to receive industry accolades and awards – including recent releases under the Sukin brand like Purely Ageless, Rosehip or Anti-acne / Blemish, the Andalou Naturals “Cannacell” and Men’s launches and ongoing work with the USPA and Life Basics brands. We are the leaders of innovation in our sector and our 36-month pipeline is strong.

Our marketing capability continues to grow, and we have seen excellent outcomes with the Sukin and Andalou brands – particularly in creative and strategy execution (Sukin “Nothing but Special” campaign) and digital and social traction. This will be an ongoing high focus area for the business.

### **Integration synergies**

Finally, we have a clear line of sight and active planning on programs that will deliver integration efficiencies and operating leverage. H2 FY19 will see execution of group procurement programs, and internalisation of manufacturing of a segment of Andalou Naturals production which is currently 3<sup>rd</sup> Party manufactured. These margin expansion projects will deliver meaningful cost benefits over time, and will be supported by general operating leverage as we roll out our multi-brand selling model in all active markets.

In conclusion, after a period of disruption and critical platform work that will impact H1 – management are encouraged by the outlook for H2 F19 and beyond.

We have gained insights from the MBO process, we have strong operating and brand platforms and we have growing organisational capability.

Our brands hold market leading positions and strong track records of innovation and growth, with opportunity for channel and geographic expansion, and growing capability in e-commerce.

Finally, we have a strong balance sheet and a robust P&L with clear opportunities to strengthen top line revenue growth, efficiencies in costs and operating leverage.

This gives management great confidence in the outlook for the business. Ultimately it will all hinge on execution and outcomes and this is how we will be judged. We look forward to reporting our progress on key drivers and initiatives that reflect the immense opportunity in the platform and strategy.

Finally, I would like to thank the entire BWX team for their work throughout the year. Good businesses start with great people – our team has managed an extraordinary volume of change with a professional, capable and “can-do” approach that centres on outcomes – this culture will be the source of future success as we execute the strategy.

I will now hand back over to Ian.

**Mr Ian Campbell – Chairman.**

Ladies and gentlemen, thank you for your attention. Before I close the informal part of the meeting, are there any questions.

Ladies and Gentlemen, I will now close the meeting and thank you for your attendance.

**Meeting ends.**