BWX Ltd

BWX

1H19 Results Presentation

22 February 2019

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AGENDA

- 1H19 summary
- Financial summary
- Brand update
- Strategy scorecard & outlook
- Q&A

1H19 SUMMARY

KEY MESSAGES

- Revenue +1.4% to $68.1m; reported EBITDA of $7.2m; underlying[1] EBITDA of $7.1m in-line with December 2018 trading update
- Sukin and acquired brand retail point of sales performance and market shares remain strong
- Significant improvement in Q2 operating performance including early stage benefits from transformation programs
- Cash flow in 1H19 impacted by inventories and prepayments that will benefit 2H19
- No interim dividend declared: dividend outlook to be reviewed at full-year results
- FY19 guidance update: Underlying EBITDA in the range of $27m-$29m (previously $27-$32m)

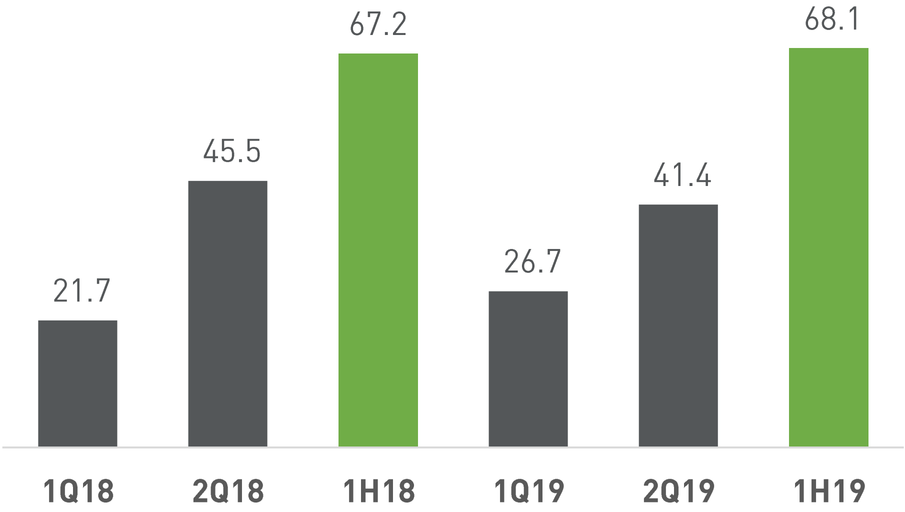
1. Underlying is a non-IFRS measure that excludes non-recurring items

1H19 DYNAMICS

CHALLENGES	1Q19	2Q19	OUTCOMES/STATUS
Failed MBO: Significant drain on resources when critical initiatives were in execution phase			**Discussions with bid consortium concluded** mid-Sept. 2018. Management now 100% focused on transformation
ERP Upgrade: return to normal operations impacted resulting in lost sales, higher costs			**ERP fully operational in Australia:** starting to deliver expected benefits. US roll-out postponed to Q1 FY '20
Warehouse relocations/consolidations: lost sales and higher costs during transition			**Completed end 1Q19:** Increased Nourished Life capacity by 4x. US facility consolidation delivers cost and leverage benefits
Delayed roll-out of multi-brand selling model: lost sales and retailer leverage			**H2 traction:** Sukin selling in 400+ US Natural doors, UK & Canada consolidation in H2
Temporary loss of sales momentum in US: Key personnel appointments delayed, volatile US retail sales in Q2			**Early signs of improved US momentum:** Key appointments and new resource capable of delivering target outcomes, stabilisation of US retail sales
Mineral Fusion rebranding: slowing down to speed up. Relaunch pushed back 3 months			**Launched January 2019** with encouraging initial results
Soft export trading sales to China			**Further refined go-to-market strategy:** signed exclusive distribution agreement effective December 2018

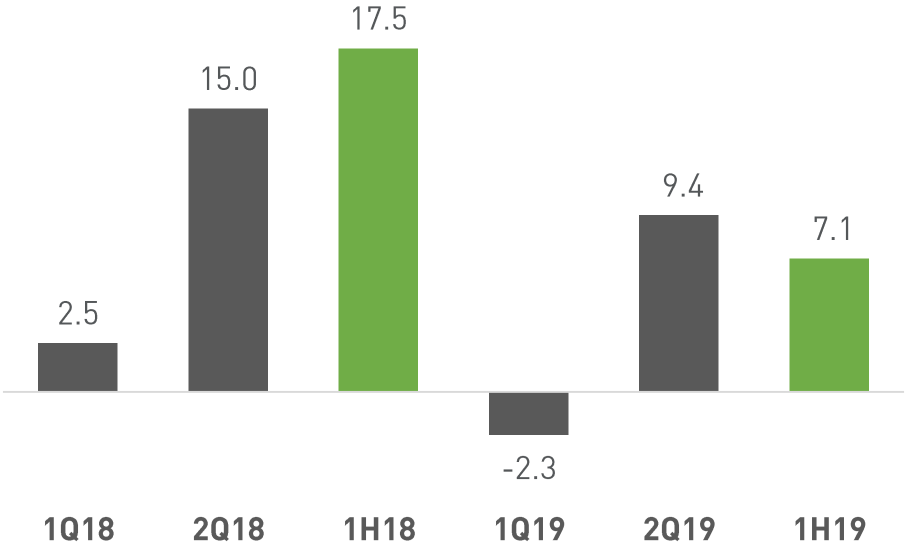
GROUP QUARTERLY SUMMARY

Net revenue (AUD million)



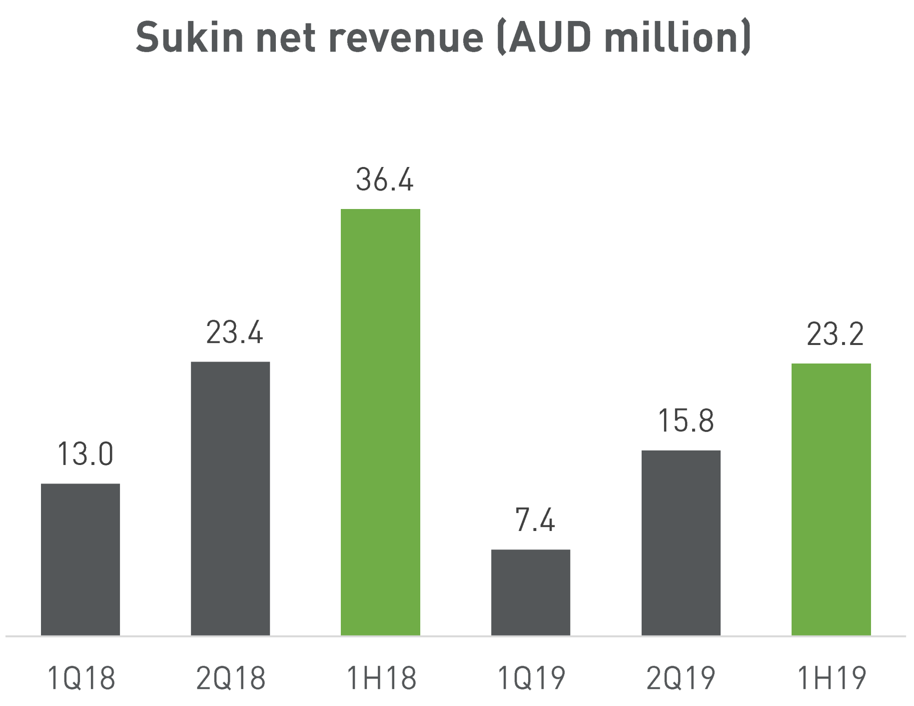
- Net revenue +1.4% to $68.1m
- 2Q net revenue +55% compared to Q1

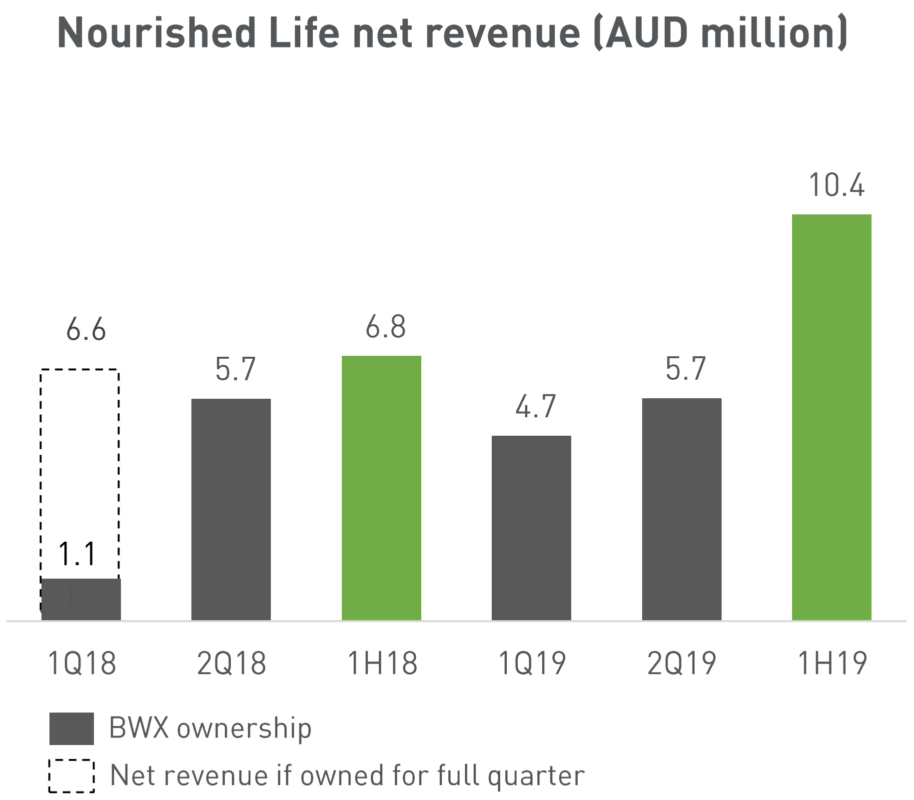
Underlying EBITDA (AUD million)



- Strong turnaround in 2Q EBITDA
- 2Q transformation momentum carries into H2

BRAND QUARTERLY DETAIL



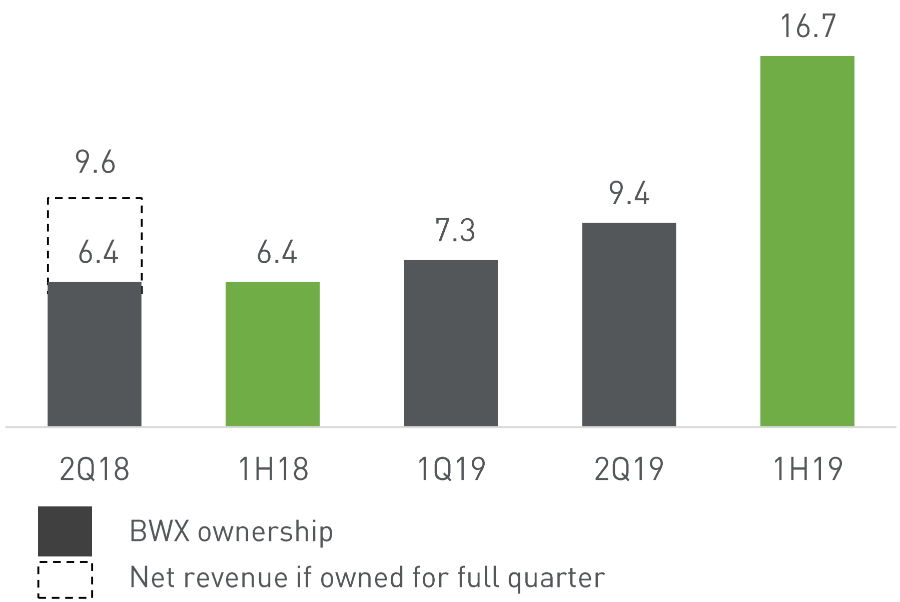


- Top line impact of ERP upgrade
- Soft export trading sales to China
- Revised domestic and international strategy commenced in H2 FY18

- Affected by warehouse relocation and ERP upgrade
- Momentum regained in Q2

BRAND QUARTERLY SUMMARY

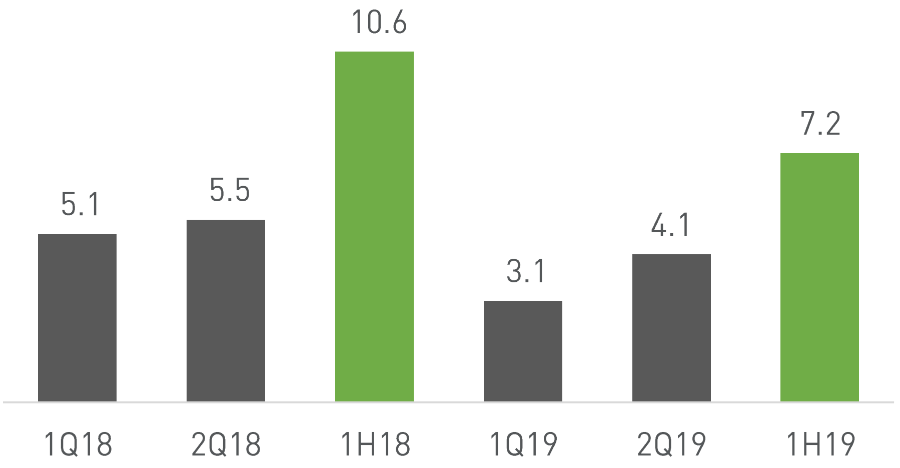
Andalou Naturals net revenue (USD million)



	2Q18	1H18	1Q19	2Q19	1H19
Revenue (AUD)	8.2	8.2	10.0	13.1	23.1

- Momentum building each quarter as innovation rolls out and base line sales improve

Mineral Fusion net revenue (USD million)



	1Q18	2Q18	1H18	1Q19	2Q19	1H19
Revenue (AUD)	6.4	7.1	13.5	4.2	5.7	9.9

- H1 impacted by delay in rebranding and associated restriction on brand activity

FINANCIAL SUMMARY

PROFIT AND LOSS

AUD million	1H18	1H19	Change
Revenue	67.2	68.1	1.4%
Gross Profit	40.0	35.1	-12.3%
Gross Profit Margin	59.6%	51.5%	-8.1pp
EBITDA – Reported	12.1	7.2	-40.5%
EBITDA - Underlying[1]	17.5	7.1	-59.5%
Depreciation & Amortisation	-0.9	-1.4	43.0%
Interest Expense	-1.9	-2.8	45.5%
Tax – Reported	-3.8	-0.4	
Tax – Underlying[1]	-3.9	1.1	
NPAT - Reported	5.4	2.6	-51.8%
NPAT – Underlying[1]	10.8	4.0	-62.6%
Basic EPS - Reported	5.2	2.1	-3.1cps
Basic EPS – Underlying[1]	10.4	3.2	-7.2cps
Dividends per share	3.3	-	-3.3cps

1. Underlying is a non-IFRS measure that excludes non-recurring items. Refer Appendix for a reconciliation of reported to underlying

Net revenue:

64% of net revenue comprised of the three acquired businesses (1H18: 43%)

Gross Profit:

- Group gross profit margin impacted by an increased proportion of net revenue coming from the acquired businesses
- Sukin brand gross profit margin % in-line with 1H18

Operating expenses:

84% of increase in operating expenses (vs.1H18) is attributable to the acquired businesses (Andalou Naturals & Nourished Life) being in operation for full six-months during 1H19

Depreciation & Amortisation:

Higher D&A due to recognition of intangibles stemming from finalisation of Nourished life acquisition

Tax:

Lower tax expense impacted by Andalou Naturals deferred payment

NON-RECURRING ITEMS

	1H18		1H19	
	Pre-tax	Post-Tax	Pre-tax	Post-Tax
Deferred consideration reversal	4.6	3.0	5.4	3.8
Costs relating to MBO proposal	-	-	-4.6	-4.5
Restructuring costs	-4.8	-3.9	-	-
Acquisition costs	-5.2	-4.4	-0.8	-0.8
Total	-5.5	-5.4	0.1	-1.4

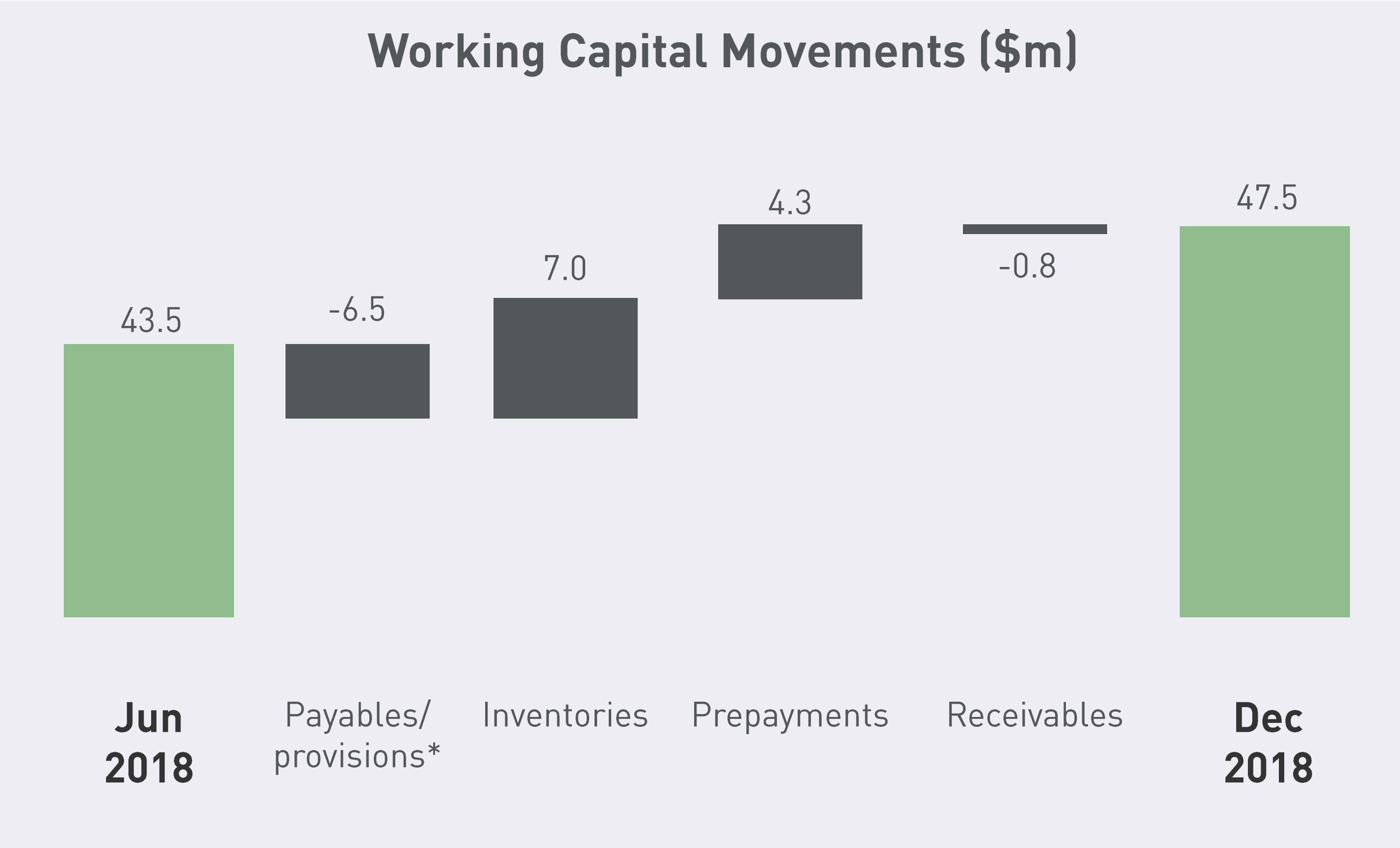
BALANCE SHEET

AUD million	1H18	1H19	Change
Assets			
Cash	19.9	5.7	-71.6%
Trade and other receivables	31.2	30.4	-2.4%
Inventories	27.9	34.9	25.2%
Prepayments	1.8	6.1	236.8%
Plant and equipment	3.5	3.9	11.3%
Intangible assets and goodwill	274.3	284.5	3.7%
Deferred tax assets	3.2	6.1	92.1%
Total Assets	**361.8**	**371.7**	**2.7%**
Liabilities			
Trade and other payables	16.2	22.9	41.6%
Financial liabilities	72.8	69.7	-4.3%
Current tax liabilities	1.4	0.4	-69.3%
Employee benefits	1.4	1.2	-14.9%
Total liabilities	**91.8**	**94.3**	**2.6%**
Net assets	**270.0**	**277.4**	**2.8%**

- Cash impacted by lower EBITDA, working capital and deferred payment in relation to Andalou Naturals acquisition
- Lower financial liabilities due to a $10.6m reduction in deferred consideration / payments on acquisitions, offset by movement in working capital banking facility
- All bank covenants obligations compliant as at 31 December 2018
- No adjustment to the carrying value of assets following December 2018 external review

	1H19
Debt	57.1
Deferred consideration	12.6
Total debt	**69.7**

WORKING CAPITAL



- Plans in place for inventories balance to reduce by 30 June 2019
- This, together with the unwind of prepayments, will provide a cash flow benefit in the second half

* Movement comprises Trade and other payables (+$6.7m) and employee benefits (-$0.2m)

CASH FLOW RECONCILIATION

AUD million	1H19
EBITDA (underlying)	**7.1**
Working Capital movements	-4.0
Transaction costs	-2.1
Interest expense	-1.9
Tax	-2.5
Other	-3.9
Operating Cash Flow	**-7.3**

AUD million	1H19
Capital Expenditure	-2.6

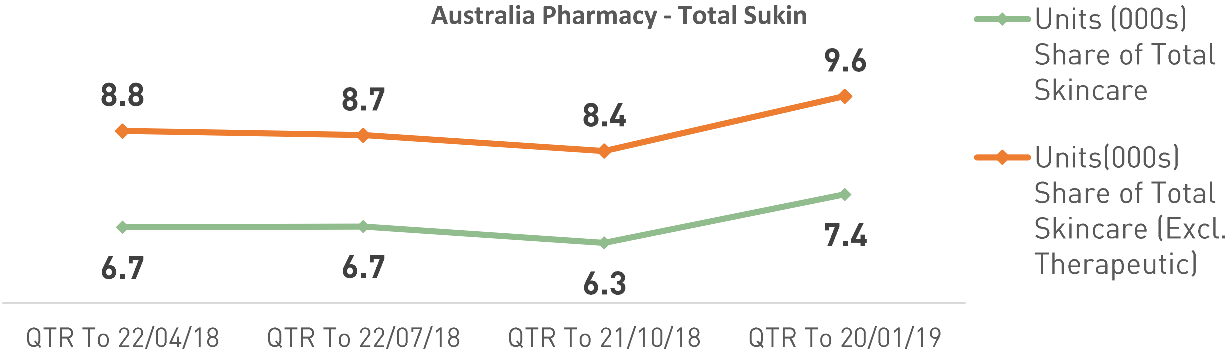
- EBITDA to Operating Cash Flow largely impacted by working capital movements
- Capital expenditure expected to be 1-2% of net revenue this financial year

	1H19
Working capital adjustment for transaction costs	-3.3
FX/other	-0.6
Total	**-3.9**

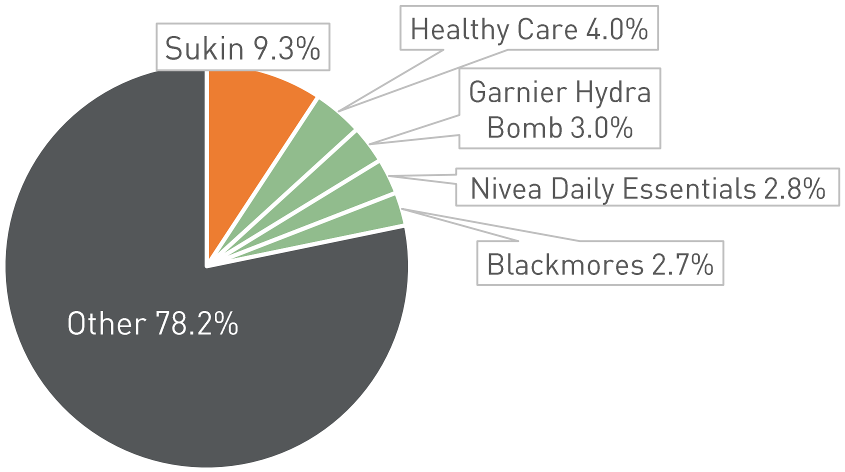
BRAND UPDATE

SUKIN
(34% OF GROUP SALES)

IRI Scan Data – Quarterly Units (000s) Share



#1 skincare brand in Australian pharmacy (% market share)[1]



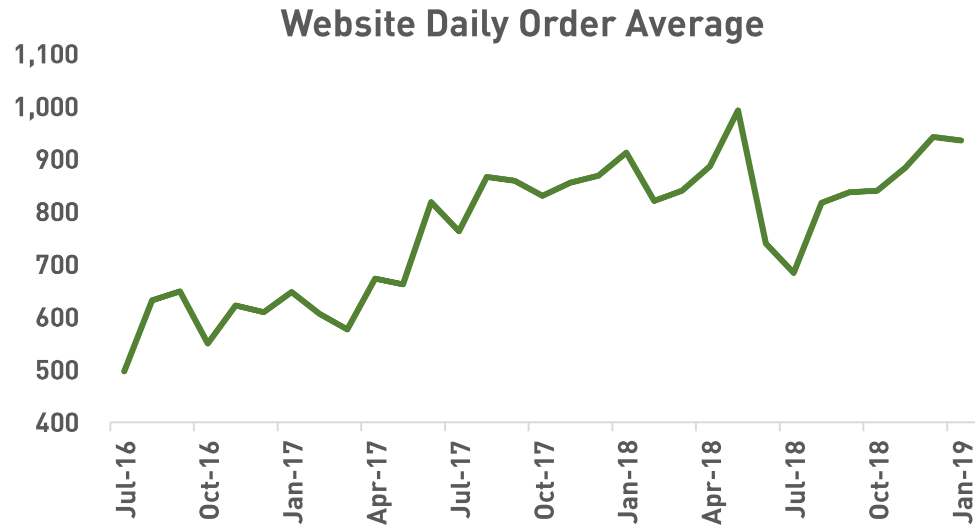
- Marketing execution & brand activations effective
  - "Nothing but Special" Media campaign driving incremental growth
  - Digital re-launch and social media programs improving engagement
- Brand innovation supporting growth via entry into new segments
- Domestic availability-improvement strategy delivering results
- Refined international model improving sustainability of revenues

Outlook:

- Range expansion with existing and new trade partners
- Domestic performance strengthening via improved distribution
- Brand innovation will support growth in new opportunity segments
- International revenue growth from existing and new markets

[1] Universe excludes therapeutic skincare. IRI Market Edge Data – Australian Pharmacy Skin Care - Units Share – MAT to 20/01/19

NOURISHED LIFE (15% OF GROUP SALES)



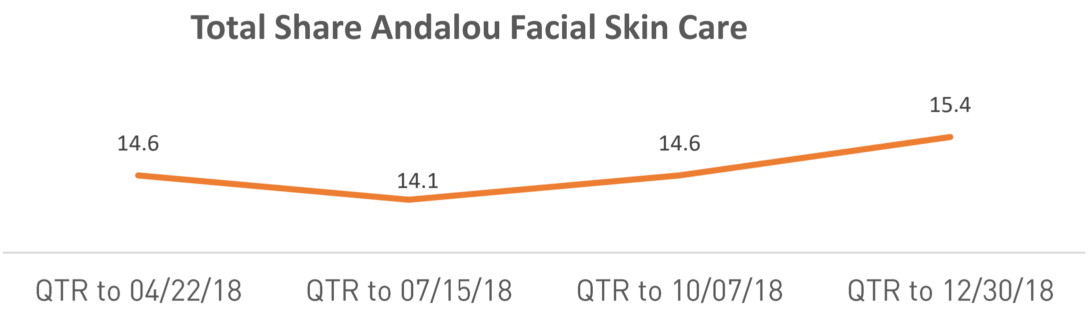
- Platform upgrade work complete - user experience issues resolved
- Domestic growth rates remain strong
- B2C Consumer behavior intelligence leverage improving
- Improved systems with established team driving greater insights

Outlook:

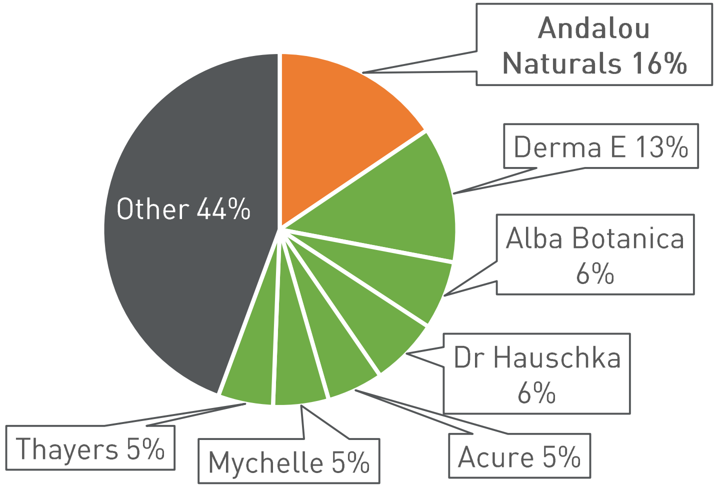
- Strengthened platform to drive operating leverage
- Platform launch in 2 new international markets in H2
- Domestic organic growth robust with opportunity to improve
- Broader group procurement plan to support margin expansion
- APAC Model learnings create functional model for regional expansion

ANDALOU NATURALS (34% OF GROUP SALES)

SPINS and Nielsen Scan Data Q1, Q2, Q3, Q4[1] Sales (000s) Share



#1 cosmetics brand in US natural channel (% market share)[1]



- North American consumer sales strong, market shares growing
- Marketing execution focused on brand core and US channel opportunity
- Recent innovation & strong pipeline supporting brand share growth
- International integration with Sukin activities progressing

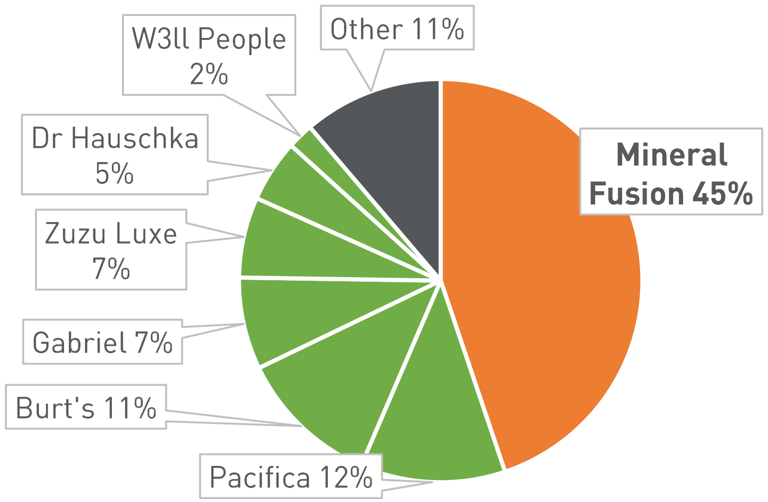
Outlook:

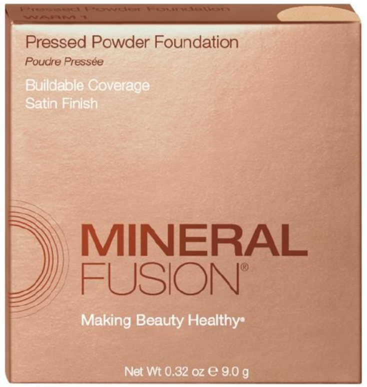
- Innovation and channel expansion to support growth
- International integration and registrations open new markets
- Internal manufacturing trial in H2 will quantify margin improvement opportunity
- Operating leverage from combined Andalou / MF / Sukin platform
- Broader group procurement plan to support margin expansion

1: Based on SPINS 12 week data for period ending 30/12/18 and Nielsen Whole Foods data for period ending 29/12/18

MINERAL FUSION
(15% OF GROUP SALES)

#1 facial skincare brand in US natural channel (% market share)[1]





- 2018 saw a planned re-brand to broaden consumer and channel appeal
- Significant work on the re-brand was delayed by 3 months resulting in:
  - Lost Q1 promotional intensity during the planned change period
  - Revised launch timing requiring sales activity restriction in Q2 in advance of packaging change-out in 1000+ doors.
- Despite this brand pause, market shares remain strong
- Upgraded livery now facilitating fresh discussions with retail partners
- Re-packaging supports new brand positioning and natural messaging

Outlook:

- Encouraging initial results from new branding launch in January 2019
- Improved brand platform to grow baseline and channel expansion
- Broader group procurement plan to support margin expansion
- Priceline test in H2 opportunity to refine international expansion model

1: Based on SPINS 12 week data for period ending 30/12/18 and Nielsen Whole Foods data for period ending 29/12/18

STRATEGY SCORECARD & OUTLOOK

STRATEGIC OBJECTIVES SCORECARD

		H2 2019		FY 2020+	
1	**Strengthen base revenues:** 4 x core beauty and personal care brands and an e-commerce platform	• Domestic brand market shares • Distribution growth (core / innovation) • Platform and Brand improvements	On track	• Domestic brand market shares • Distribution growth (core / innovation) • Platform and Brand improvements	On track
2	**Pursue meaningful geographic expansion:** focused expansion in attractive and scalable markets	• Sukin → US entry, doors build • Andalou / MF → APAC • International consolidation, model upgrade	On track	• Sukin → 2 x major market launches • Andalou / MF → EU expansion • Nourished Life new geographies	On track
3	**Accelerate channel expansion:** grow market share in existing channels and expand in new opportunity channels	• Sukin – Continue channel expansion • Mineral Fusion – US Drug and Grocery • Andalou – US Drug and Grocery	On track	• Sukin – EU / US channel expansion • Mineral Fusion – US / EU Drug and Grocery • Andalou – US / EU Drug and Grocery	On track
4	**Grow e-commerce presence:** capitalise on BWX Digital capabilities to drive growth across all brands in B2C sales	• Nourished Life – 2 x new test markets • Sukin – Upgraded Web Platform leverage • Andalou / MF – Upgraded Web Platform	On track	• Nourished Life – 2 x new international mkts • Sukin – Platform data leverage • Andalou / MF – Platform data leverage	On track
5	**Innovation to underpin growth:** launch new initiatives in attractive segments that drive brand penetration and regime expansion	• Nourished Life – Life Basics line extensions • Sukin – 2 x expanded segment offers • Andalou / MF – Recent launch distribution	On track	• Nourished Life – Life Basics line extensions • Sukin – 2 x new categories • Andalou – 1 x major segment expansion	On track
6	**Business optimisation:** invest in manufacturing capabilities and drive operating synergies to improve capital returns	• Strategic Procurement engagement • Andalou in-house manufacturing trial Q4 • NWC and Cash Flow programs H2	On track	• Strategic Procurement Annual (Target TBC) • Andalou in-house production expansion • Production efficiency program (Target TBC)	On track

Completed   On track   Behind schedule

OUTLOOK

- FY19 Guidance update: underlying EBITDA in the range of $27m-$29m (previously $27-$32m)
- Point of sales data highlights ongoing strength in our brands and provides confidence in traction with consumers across our portfolio
- Expect to see further growth in offshore markets as international re-set and consolidation progresses
- Improved conversion in earnings to cash in 2H 2019
- Capital expenditure within 1-2% of net revenues in FY19

Thank you.

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APPENDIX

- Reported to underlying reconciliation
- Group cash flow statement
- 1H19 underlying EBITDA by month
- Strategic channel expansion

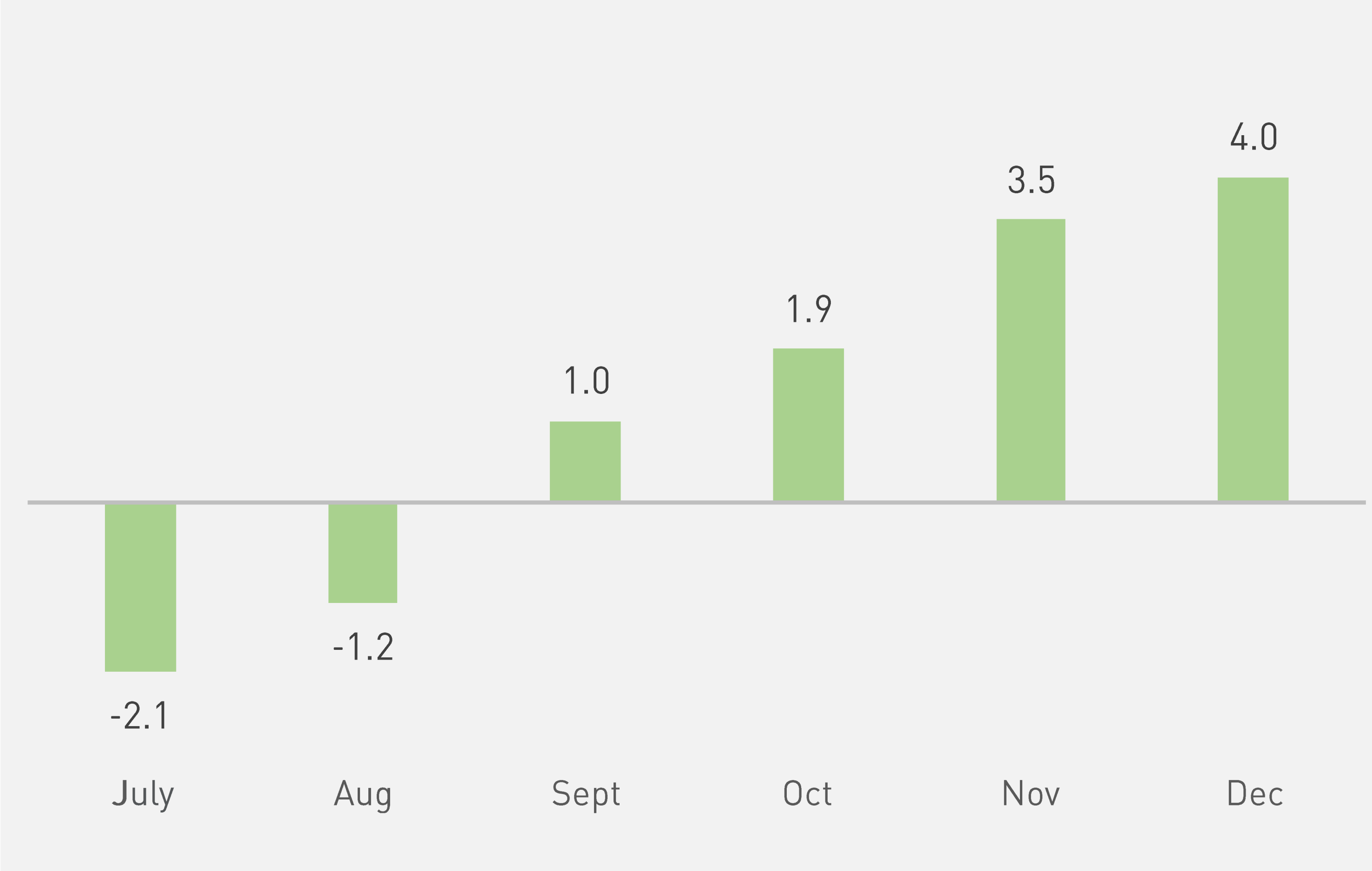
REPORTED TO UNDERLYING RECONCILIATION

AUD millions	1H18			1H19		
	Reported	Non-recurring	Underlying	Reported	Non-recurring	Underlying
Revenue	67.2		67.2	68.1		68.1
Gross Profit	40.0		40.0	35.1		35.1
Gross Profit Margin	59.6%		59.6%	51.5%		51.5%
EBITDA	12.1	5.5	17.5	7.2	-0.1	7.1
EBITDA Margin	17.9%		26.1%	10.4%		10.4%
Depreciation & Amortisation	-0.9		-0.9	-1.4		-1.4
EBIT	11.1	5.5	16.6	5.8	-0.1	5.7
Interest Expense	-1.9		-1.9	-2.8		-2.8
Tax	-3.8	-0.1	-3.9	-0.4	1.5	1.1
NPAT	5.4	5.4	10.8	2.6	1.4	4.0

GROUP CASH FLOW STATEMENT

AUD million	1H18	1H19
Cash flows from operations		
Receipts from customers	72.5	72.0
Payments to suppliers and employees	(54.6)	(73.1)
Payments for transaction costs	(7.5)	(2.1)
Income taxes paid	(4.9)	(2.5)
Other income received	0.02	0.3
Interest paid	(1.9)	(1.9)
Net cash from operating activities	**3.7**	**(7.3)**
Cash flow from investing activities		
Acquisition of plant and equipment	(0.4)	(1.2)
Acquisition of intangible assets	-	(1.4)
Net cash outflow on acquisition of business	(98.1)	(5.2)
Net cash flows used in investing activities	**(98.5)**	**(7.9)**
Cash flows from financing activities		
Proceeds from issue of share capital	128.2	0.9
Transaction costs for issue of shares	(4.5)	-
Dividends paid	(3.8)	(5.1)
Proceeds / (repayments) from borrowings	(9.4)	4.7
Net cash used in financing activities	**110.6**	**0.5**
Net (decrease) / increase in cash and cash equivalents	15.8	(14.6)
Effect of exchange rate changes on cash held	0.1	0.4
Cash and cash equivalents at beginning of period	11.0	19.9
Cash and cash equivalents at end of period	**26.9**	**5.7**

1H19 UNDERLYING EBITDA BY MONTH ($Am)



STRATEGIC CHANNEL EXPANSION