

# ASX Announcement

22 February 2019

## FIRST HALF 2019 (1H19) COMPANY FINANCIAL RESULTS

- Revenue of \$68.1m, a 1.4% increase compared to 1H18.
- Reported NPAT of \$2.6m, a 51.8% decrease compared to 1H18, impacted by disruptions the company faced during the period.
- Reported EBITDA of \$7.2m, a 40.5% decrease compared to 1H18.
- Underlying<sup>1</sup> EBITDA of \$7.1m, a 59.5% decrease compared to 1H18, in-line with 2018 December trading update.
- Significant improvement in Q2 operating performance including early stages of realisation of benefits from ERP platform implementation.
- Net Operating cash flow impacted by higher inventories and prepayments that will benefit 2H 2019.
- No interim dividend declared.
- FY19 guidance update: underlying EBITDA in the range of \$27m - \$29m (previously in the range of \$27-\$32m).

Earnings Summary for BWX Limited Group			
	1H18	1H19	Change
	\$'m	\$'m	
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) <sup>(1)</sup>	17.5	7.1	-59.5%
Net profit after tax (reported)	5.4	2.6	-51.8%
Net profit after tax (underlying) <sup>(1)</sup>	10.8	4.0	-62.6%
Earnings per share (reported)	5.2	2.1	-3.1cps
Earnings per share (underlying) <sup>(1)</sup>	10.4	3.2	-7.2cps
Dividends per share	3.3	-	-3.3cps
Net Operating cash flow	3.7	-7.3	-\$11.0m

<sup>1</sup> Underlying is a non-IFRS measure that excludes the following non-recurring items (pre-tax): reversal of deferred consideration of \$5.4m (1H18: \$4.6m); costs relating to MBO proposal -\$4.6m (1H18: nil) and acquisition costs of -\$0.8m (1H18: -\$5.2m).

**Melbourne Australia** – BWX Limited (ASX: BWX) today announced its 2019 first half (1H19) financial results with underlying EBITDA of \$7.1m in line with the 2018 December trading update.

BWX Managing Director and Chief Executive Officer, Mr Myles Anceschi, said “We faced several challenges in the half as we re-set the business and executed our change programs. The major issues are now behind us and we are gaining momentum in our transformation. The turnaround in the second quarter gives us confidence in the outlook for the company. Our guidance for the full year has been updated – with a revised range of underlying EBITDA in the range of \$27-\$29m (previously in the range of \$27-\$32m). This change has been driven by the postponement of several upside initiatives originally planned for 1H19. These have been postponed until FY20 where they will be executed with greater focus and as such be more optimal for the business.”

“Consumer demand for our brands remains strong. Sukin is the number 1 skincare brand in Australian pharmacy and is making great gains in channels outside pharmacy. We are seeing early wins following the Mineral Fusion rebrand launch in January 2019 with baseline sales increasing. US domestic consumer sales are strong for Andalou Naturals with market shares sustained or growing. Domestic growth rates also remain strong in Nourished Life and we look forward to launching in two new international markets in the second half.”

“While it is disappointing we could not declare an interim dividend given the impact on cash balances this half, the outlook for the final dividend will be assessed by the Board in August having regard to the operating performance of the business and ability to fund dividends from cash flows.”

## 1H 19 Financial Performance

### Revenue

Net revenue (AUD millions)	1H18	1H19	Change
Sukin	36.4	23.2	-36%
Andalou Naturals	8.2	23.1	182%
Mineral Fusion	13.5	9.9	-27%
Nourished Life	6.8	10.4	53%
Other	2.3	1.5	-35%
<b>Total</b>	<b>67.2</b>	<b>68.1</b>	<b>1%</b>

Total net revenue for 1H19 benefitted from a full six month contribution from acquired businesses, as well as solid brand performance in retail. However, this was mostly offset by the negative impacts of the disruptions faced by the company during the half.

These included the delay in the ERP upgrade and the failed management buy-out, which saw a significant drain on resources when critical initiatives were in the execution phase.

#### *Sukin*

Sukin, which experienced the largest negative impact from the disruptions mentioned above, saw revenue decline by 36% compared to 1H18. Revenue was heavily impacted by the ERP rollout in the first quarter which resulted in lost sales.

Pleasingly, revenue in the second quarter more than doubled compared to the first quarter with market share continuing to grow.

#### *Andalou Naturals*

Andalou Naturals revenue increased by 182% compared to 1H18 (161% increase on a constant currency basis). Andalou Naturals was acquired on 31 October 2017, the prior corresponding period included 2 months of revenue.

During the period, Andalou Naturals experienced strong North America domestic consumer sales with active segment market shares sustained or growing. The outlook for further international growth is promising with EU registration imminent.

#### *Mineral Fusion*

Mineral Fusion revenue declined by 27%, compared to 1H18 (32% decrease on a constant currency basis). Revenue was adversely impacted in the half due to the delay in the launch of new packaging of Mineral Fusion products. The new branding was launched in January 2019 with encouraging initial results and will facilitate domestic channel expansion. Similar to Andalou Naturals, registration work is being performed to open new international markets.

#### *Nourished Life*

Nourished Life revenue increased by 53%, compared to 1H18. The prior comparative period included 3.5 months of Nourished Life revenue.

While revenue was impacted in the first quarter due to the ERP rollout and warehouse relocation, momentum has been regained in the second quarter and domestic growth rates remain strong. We expect to launch the Nourished Life platform in two new international markets in the second half which will further support revenue growth in the period.

#### *Other*

Revenue from other brands includes non-core owned brands, third party manufacturing and third party distribution. Revenue decreased by 35% compared to 1H18, mainly due to reduced revenue from the third party business, as per the company's strategy. Owned brand revenues remained in line with 1H18.

## Gross profit margin

Gross profit margin declined to 51.5% during 1H19 compared to 59.6% in the prior corresponding period. The period saw a full six month's contribution from the Nourished Life and Andalou Naturals acquisitions that are lower margin businesses. The 1H19 disruptions had a significant impact on Sukin revenue, which is the company's highest margin brand. The gross profit margin from the Sukin brand remained stable.

## Operating expenses

Operating expenses increased by 22% to \$28.4m. Over 80% of the increase in operating expenses was attributable to the inclusion of the Andalou Naturals and Nourished Life acquisitions for a full six months in the period. There was also an increase in expenses as a result of the disruptions relating to the ERP rollout and warehouse relocations.

## Non-recurring items

Non-recurring items comprised a non-cash benefit of \$5.4m relating to the reversal of deferred consideration that had previously been provided for in Nourished Life. This was largely offset by \$4.6m of expenses relating to the management buy-out proposal and \$0.8m of acquisitions costs.

## Net profit after tax (NPAT)

Reported NPAT declined by 51.8% on the prior corresponding period to \$2.6m. This included the impact of:

- An increase in the depreciation and amortisation charge from \$0.9m in 1H18 to \$1.4m in 1H19, reflecting the inclusion of acquired businesses for a full six months, and amortisation of the customer lists.
- An increase in finance expense from \$1.9m in 1H18 to \$2.8m in 1H19 reflecting interest expense from the working capital facility and unwinding of the discount on deferred consideration.
- A reduction in the company's effective tax rate from 26% in 1H18 to 14% in 1H19 due to a tax benefit relating to a deferred payment of \$5.2m as part of the Andalou Naturals acquisition.

Excluding the after-tax impact of non-recurring items, underlying NPAT was down 62.6% to \$4.0m.

## Cash generation and working capital

Net cash flow from operating activities in 1H19 was (\$7.3m) compared to \$3.7m in 1H18. This decline was largely due to lower EBITDA as well as the impact of higher working capital and non-recurring items.

## Balance sheet

Working capital increased by 9.2% (\$4.0m), compared to 30 June 2018. This was mainly attributable to an increase in inventories.

Financial liabilities declined by 4.3% (\$3.1m) which comprised a \$10.6m reduction in deferred consideration (\$5.2m of this was paid out in cash), partly offset by higher trade finance and other loan facilities. As at 31 December 2018 the balance of deferred consideration sitting in financial liabilities was \$12.6m.

For 1H19, the Group has complied with its obligations under the banking facility, which are subject to debt service coverage, gross leverage and working capital covenants.

## Capital expenditure

The company incurred \$2.6m of capital expenditure during the period which included the purchase of plant and equipment and expenditure on the ERP. The level of capital expenditure is expected to remain within 1% to 2% of net revenues on an annual basis.

## FY 2019 Outlook

Our core brands remain strong and provide confidence in the potential to drive long term superior returns from the company's portfolio. Our domestic performance is improving and we expect to see ongoing acceleration in growth of offshore revenues.

## Results Briefing

BWX will host a Results Briefing on Friday 22 February at 9.45am AEDST. Participants can dial one of the numbers below. Please quote the Conference ID.

Participant toll: +61 2 8038 5221
Participant toll-free: 1800 123 296
Conference ID: <b>5055367</b>
To ask a question, participants will need to dial “*1” (star, 1) on their telephone keypad.
<b>International dial-in details</b>
These numbers are toll-free dial-in numbers for each country listed below. For countries not listed below, the Australian Participant Toll number listed above can be dialled. To ask a question, participants will need to dial “*1” (star, 1) on their telephone keypad.
Canada 1855 5616 766
China 4001 203 085

Hong Kong 800 908 865
India 1800 2666 836
Japan 0120 994 669
New Zealand 0800 452 782
Singapore 800 616 2288
United Kingdom 0808 234 0757
United States 1855 293 1544

A playback of the conference call will be available at a later date and will be posted on our website.

For further information please contact:

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