



**1H19 Results**  
**Brand Transformation**

*27 February 2019*

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# Key messages

- Transformational rebrand and product upgrade now in market and gaining strong traction
- Delivers a winning product for an already strong brand; integrating the best of nature and science including a world leading level of DHA (Omega 3) for an organic toddler milk
- Sets a new platform for sustained revenue growth and a higher level of investment in China
  - Investment plan to double Marketing spend and the China team in 2H19
- 1H19 group revenue of \$130M and EBITDA of \$26M on a normalised basis
  - Revenue impacted by SAMR registration delay, the decision to run down trade inventory prior to the rebrand, and a slowdown in category performance
  - Normalised result excludes a one-off \$12M inventory provision for the rebrand transition
- Implications for the full-year result greater than anticipated, with a revised group revenue target of \$275-300M and normalised EBITDA margin of 18-22% reflecting greater investment
- High confidence in the rebrand, our new product pipeline, continued food growth and successful SAMR registration
- Medium-term outlook remains compelling, supported by category fundamentals, our differentiated position and an aggressive three year growth strategy targeting +\$500M revenue by FY21

# Australia's #1 organic brand just got better



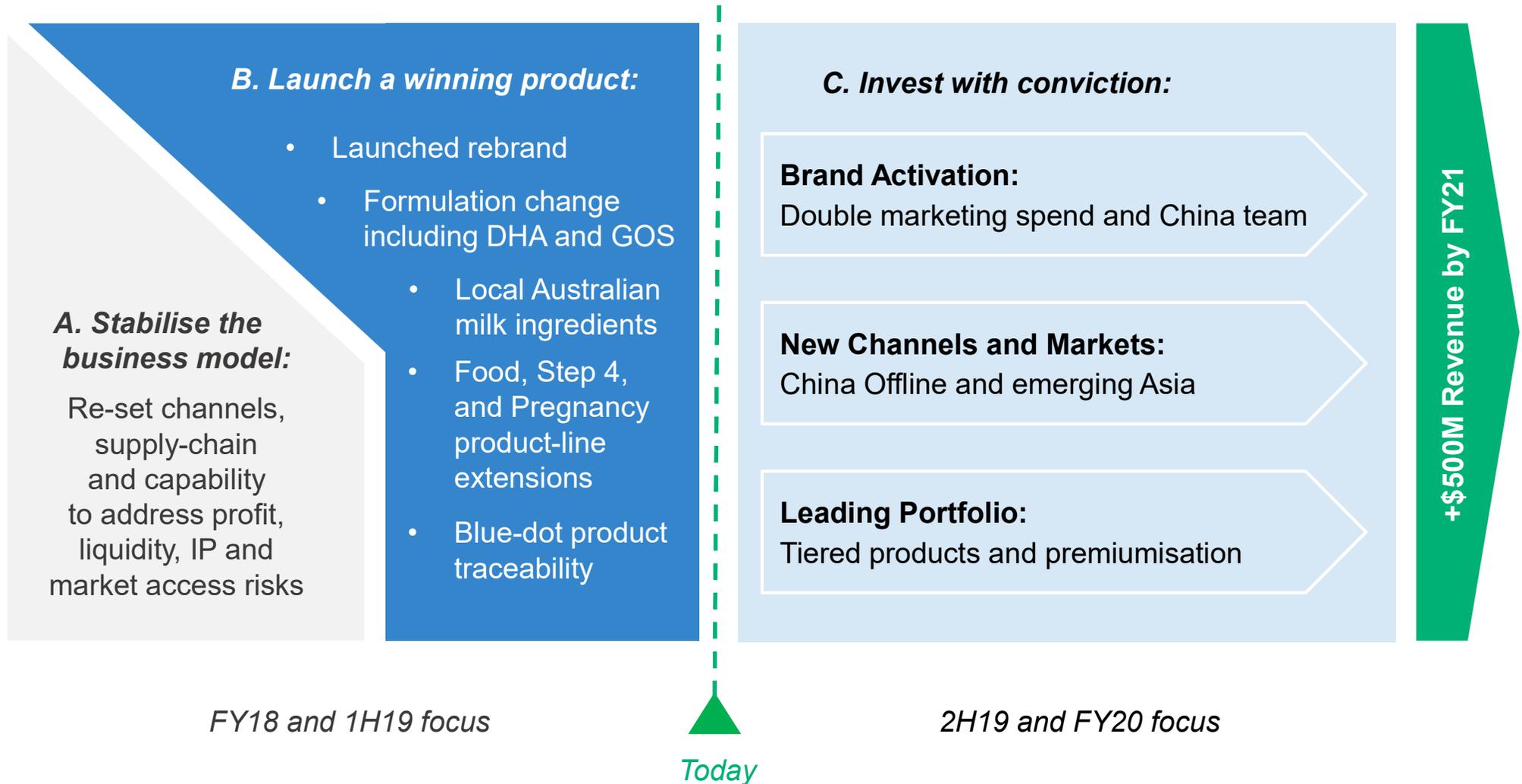
# Strong brand, and now a winning product



Sources: Nielsen Research, Morgan Stanley January 2019, Euromonitor

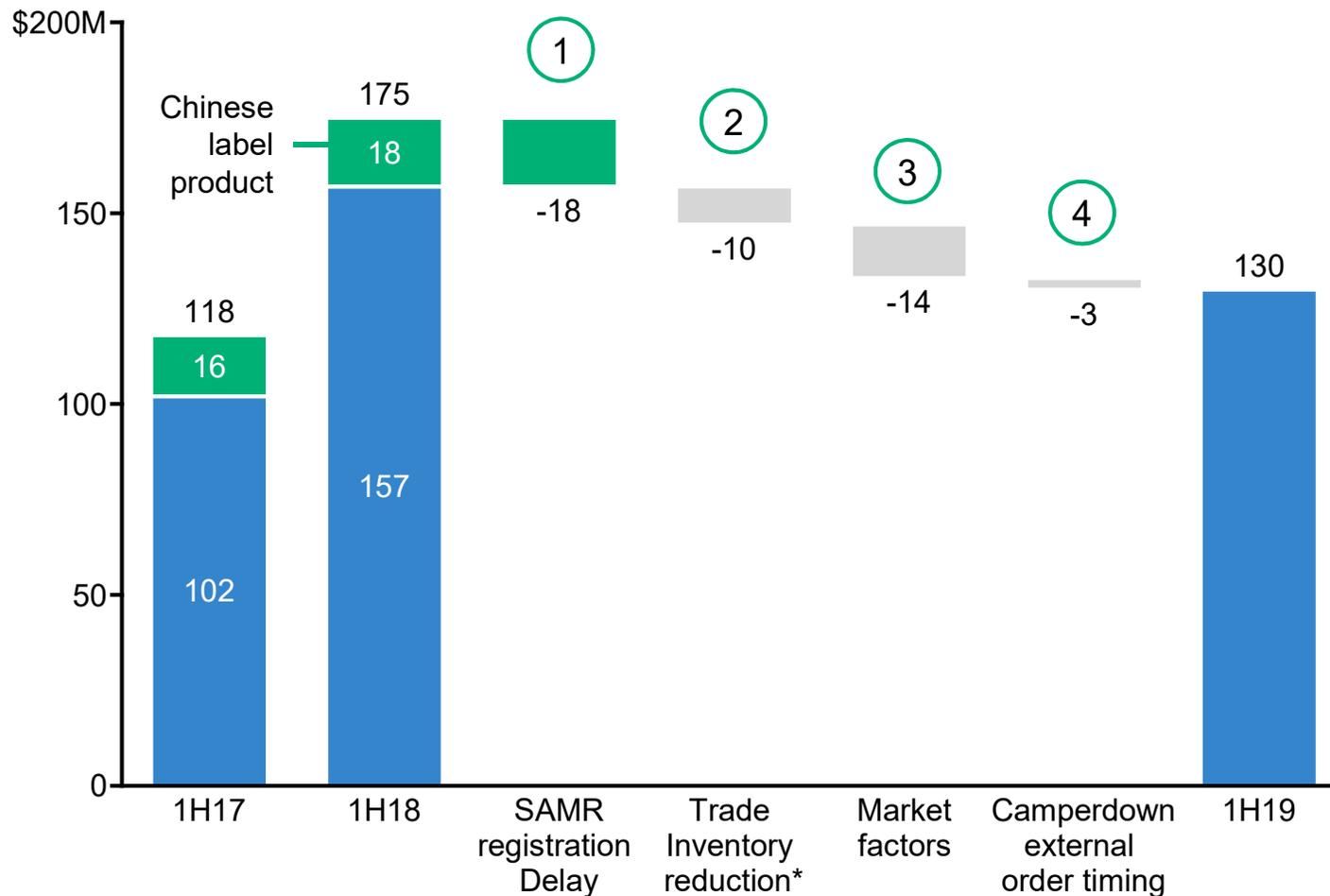
# Platform for a new level of growth and investment

## TRANSFORMATION JOURNEY



# 1H19 revenue impacted by four factors

## 1H19 GROUP REVENUE VS PCP



## COMMENTARY

- 1 SAMR Registration Delay: No Chinese-label formula sales in 1H19
- 2 Trade Inventory reduction: Reduced excess trade inventory \$10M prior to rebrand transition\*
- 3 Market factors: Observed slower category growth and birth-rate in China, and increased local supply from competitors
- 4 Camperdown external order timing: Orders skewed to 2H19

\* Estimate based on inventory held by primary distributor in Australia and primary distributor in China

# 1H19 profit impacted by lower revenue and scale

## PROFIT & LOSS (\$M)

		1H18	1H19	Growth vs pcp	
Core business - normalised	Revenue	170.0	127.7	-24.9%	
	Gross Profit	63.0	54.6	-13.3%	
	% of sales	37.1%	42.8%		
	Expenses	Direct*	(7.6)	(8.2)	7.8%
		Marketing	(6.4)	(6.8)	6.3%
		Other	(12.7)	(12.7)	0.7%
		Total	(26.7)	(27.7)	4.1%
EBITDA	36.3	26.9	-25.9%		
% of sales	21.4%	21.0%			
Camperdown	Revenue**	4.9	1.9	-61.2%	
	EBITDA	(1.4)	(0.9)	35.7%	
Group – normalised	Revenue	174.9	129.6	-25.9%	
	EBITDA	34.9	26.0	-25.5%	
	NPAT	22.4	16.5	-26.3%	
Group – statutory	EBITDA	34.9	14.0	-59.9%	
	NPAT	22.4	8.1	-63.8%	

## KEY DRIVERS

### Core business

- 25% revenue change due to SAMR delay, reduced trade inventory and slower category
- Gross Margin improved 5.7% points vs 1H18
- Direct costs impacted by both scale and supply-chain changes and expected to return to ~5% of revenue
- Overheads controlled on a dollar basis

### Camperdown

- Impacted by external 3<sup>rd</sup> party revenue timing and expected to break even for full-year

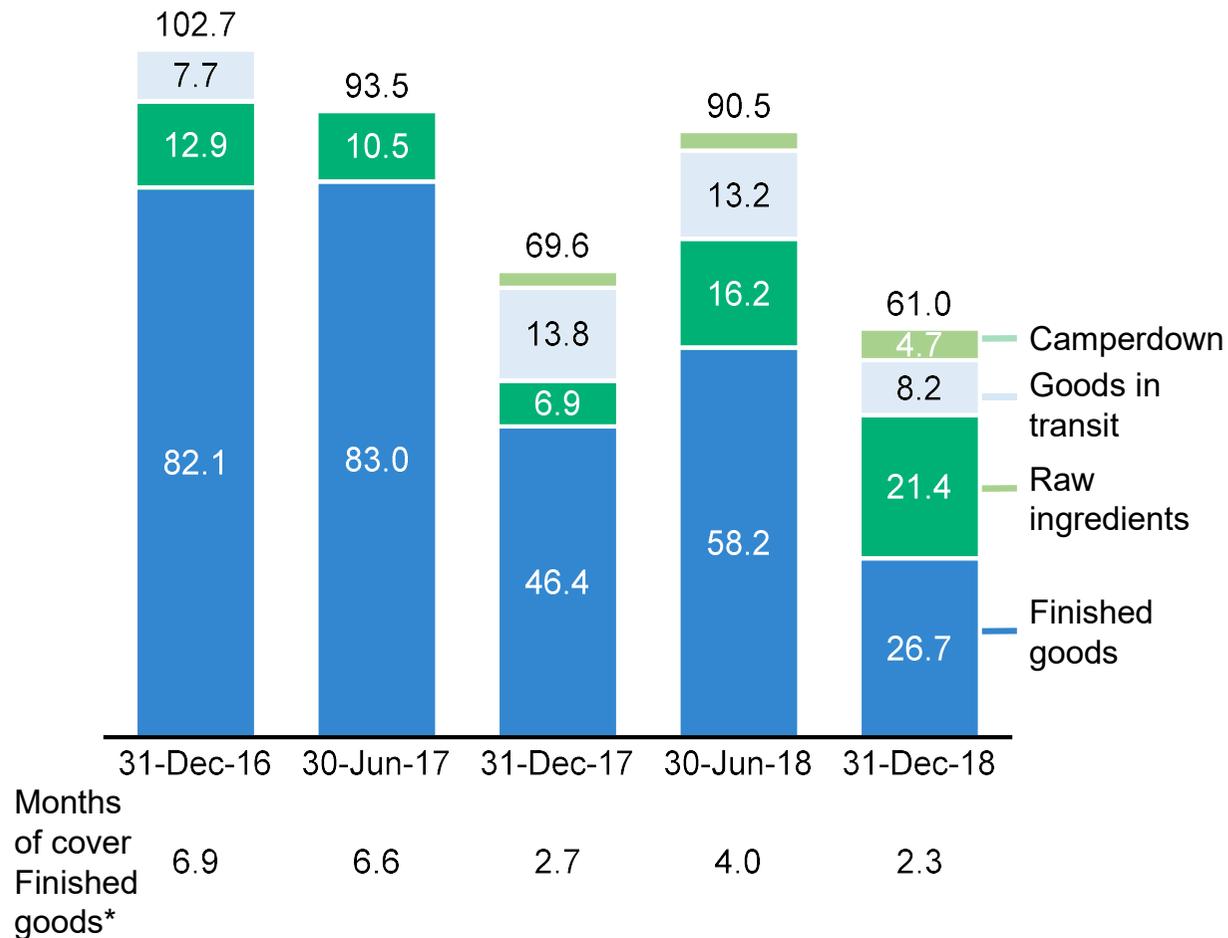
### Statutory

- \$12M one-off inventory provision for all legacy-label inventory following rebrand

\* Excludes one-off items as disclosed in the Financial Statements; \*\* Expressed net of intercompany transactions

# Inventory fully transitioned to new product

## BELLAMYS GROUP INVENTORY (\$M)



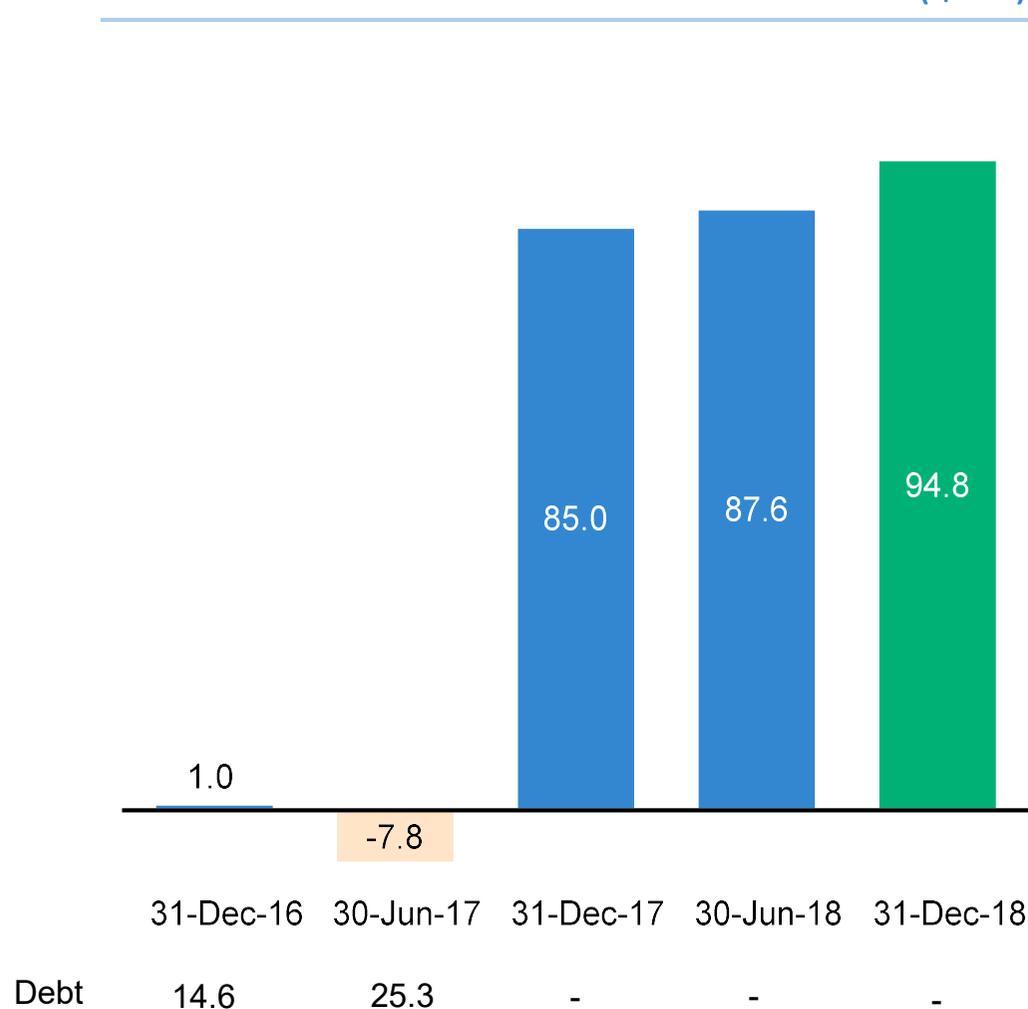
(\*) Based on previous 6 months of sales

## COMMENTARY

- Finished goods is comprised solely of upgraded product range
- All legacy label product has been written down
- Raw ingredients increased as a result of direct sourcing model
  - Key driver of procurement and manufacturing savings and material decrease in COGS
  - Requires higher ingredient levels previously held by manufacturer
- Finished goods cover is towards low end of target inventory

# Strong balance sheet with \$95M in cash

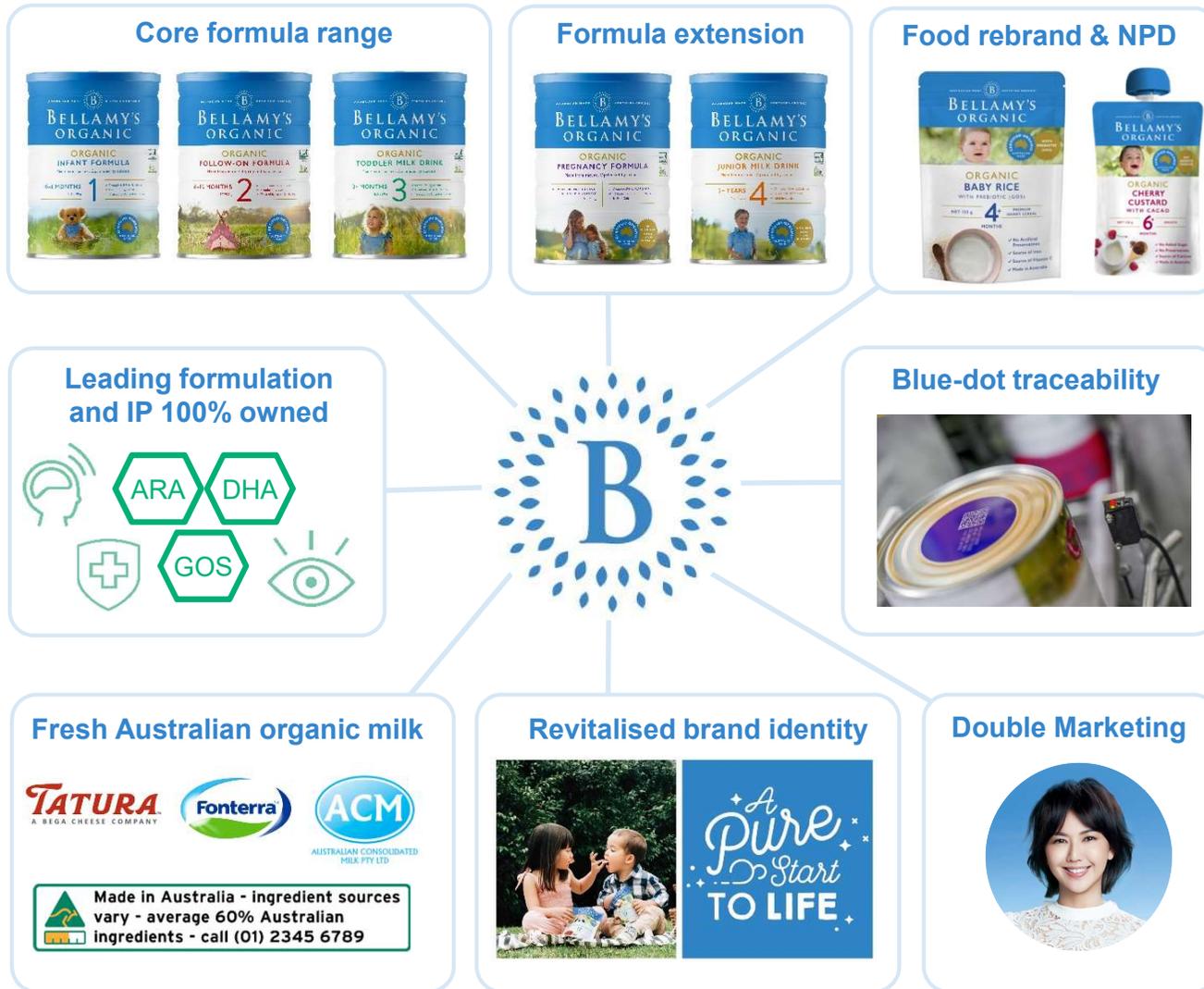
## BELLAMYS GROUP NET CASH (\$M)



## COMMENTARY

- Group cash balance increased by \$7M to \$95M
- Cash conversion impacted in this period by:
  - Cyclical phasing of creditor payment cycles
  - Structural changes in our supply chain as a result of direct sourcing strategy
- Bellamy's continues to maintain zero debt levels, with access to a \$40M debt facility

# Rebrand is the most ambitious investment in company history



## LAUNCH INVESTMENT

- A** Trade inventory reduction: Run-down of trade inventory by ~\$10M in 1H19 prior to transition to ensure clean change-over and improved channel economics
- B** Inventory write-down: One-off inventory write-down of ~\$12M in 1H19 provides for all remaining legacy inventory
- C** Marketing spend to double: Plan to double marketing spend in 2H19
- D** China team to double: Double China Sales & Marketing team in 2H19 to activate brand

# High impact launch to begin in March

## A-GRADE AMBASSADORS AND KOLs



**STEFANIE SUN**

- Celebrity singer and sold >30M records
- 24M Weibo followers
- Popular in China, Taiwan, HK and SEA
- 2nd child is < 1yr old



**ZILIN ZHANG**

Former Miss World  
16M Weibo followers



**NIANGAO MAMA**

Renown parenting KOL  
15M WeChat followers



**Dr Ding Xiang's**

Wellness media run by doctors  
2.1M Weibo followers



**DOCTOR CUI**

Parenting KOL  
10M app users  
2.85M WeChat followers

## POWERFUL SELLING POINTS



**ONLY 1% OF THE WORLD'S FARMLAND IS CERTIFIED ORGANIC**

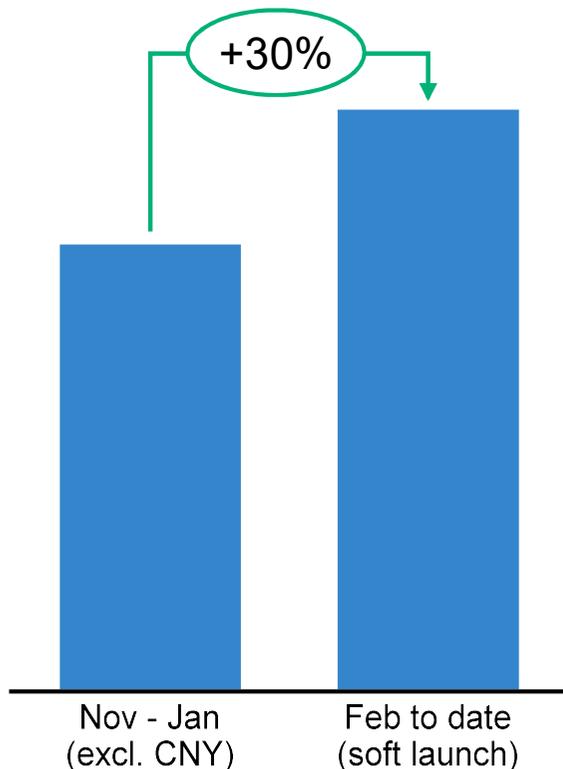


Sources: IRI data; Euromonitor; Research Institute of Organic Agriculture (FIBL)

# Early social 'buzz' is very positive

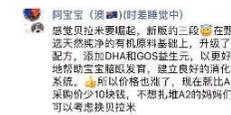
## WECHAT INDEX RISING

WeChat mentions  
(000's of mentions indexed)



Source: WeChat official mobile index (for Bellamy's Organic)

## WORD-OF-MOUTH AND REVIEWS CHANGING



品牌	1-3岁	3-6岁	6-12岁	12岁以上
贝拉米	★★★★★	★★★★★	★★★★★	★★★★★
雀巢	★★★★	★★★★	★★★★	★★★★
美赞臣	★★★★	★★★★	★★★★	★★★★
飞鹤	★★★★	★★★★	★★★★	★★★★
伊利	★★★★	★★★★	★★★★	★★★★
金领冠	★★★★	★★★★	★★★★	★★★★
圣元	★★★★	★★★★	★★★★	★★★★
雅培	★★★★	★★★★	★★★★	★★★★
惠氏	★★★★	★★★★	★★★★	★★★★
多美滋	★★★★	★★★★	★★★★	★★★★

“Bellamy’s is not only changing its packaging, it is also improving the formulation. Compared to the old product, **it has added DHA and GOS. WOW.** Organic milk source plus new formulation!  
**Bellamy’s is invincible now!**”

“**Bellamy’s new organic formula! Beautiful!**”

“**Feel like Bellamy’s is rising!** Uses premium ingredients and adds DHA and GOS to help brain and eye development ... **it’s time to consider Bellamy’s**”

**Top ranked post on Little Red Book** when searching for “Australian formula” has already fundamentally **changed its comparison rating** for Bellamy’s

# Remain confident in our SAMR application and stand ready to activate our China Offline strategy



Remain confident in application and anticipate Australian audits in CY19



Taking control of sub-distributor relationships and optimising network



Taking control of key accounts, pricing and trade marketing

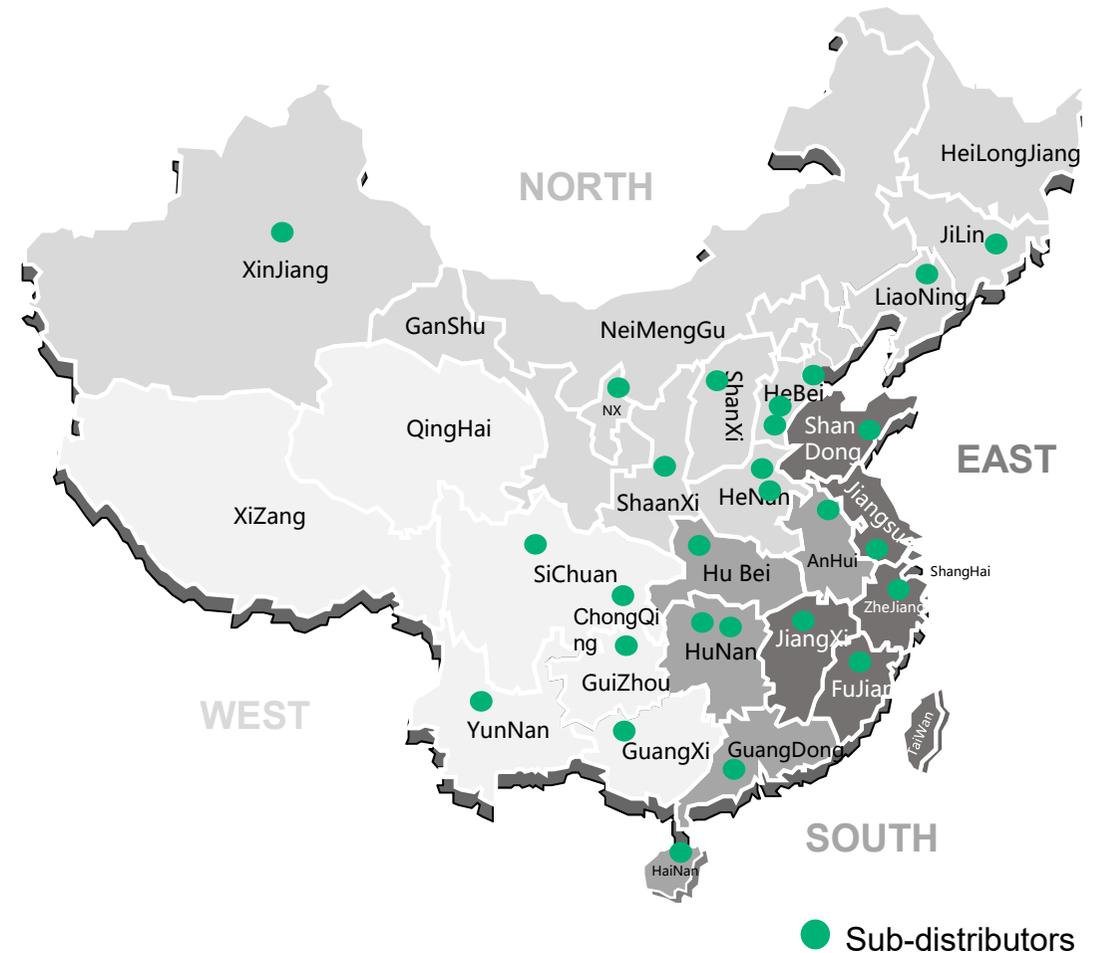


Prioritising geographies and establishing focus



Recruited Director China Sales and establishing north, south, east and west sales units

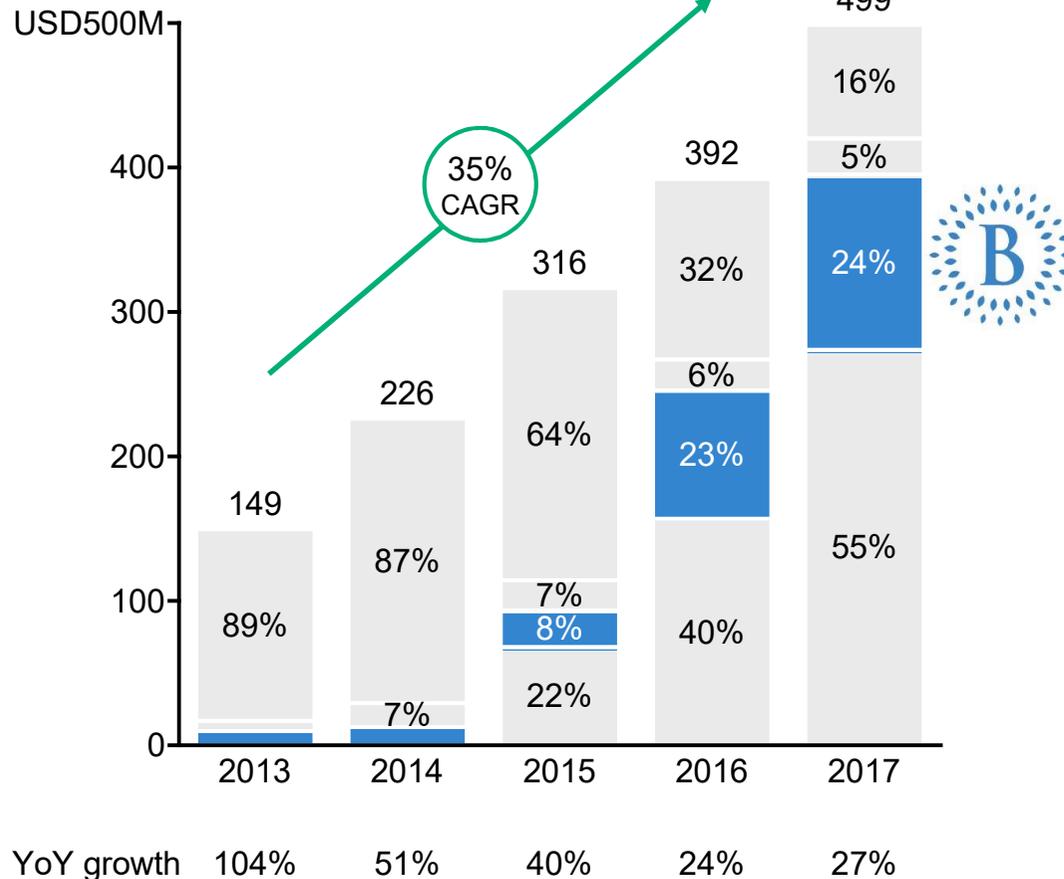
## OFFLINE SUB-DISTRIBUTOR NETWORK



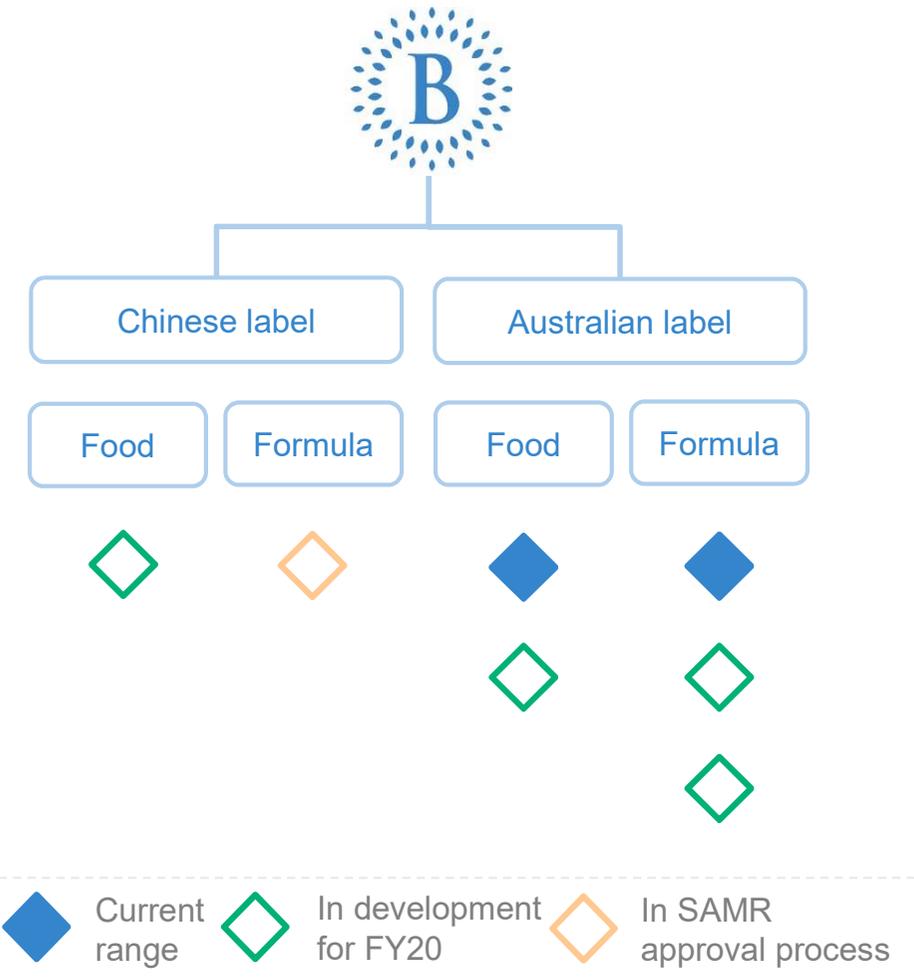
# Evolving from Australia's #1 Organic brand ... to Australia's #1 Organic portfolio

## BUSINESS IS WELL PLACED TO ...

China Organic Baby Formula



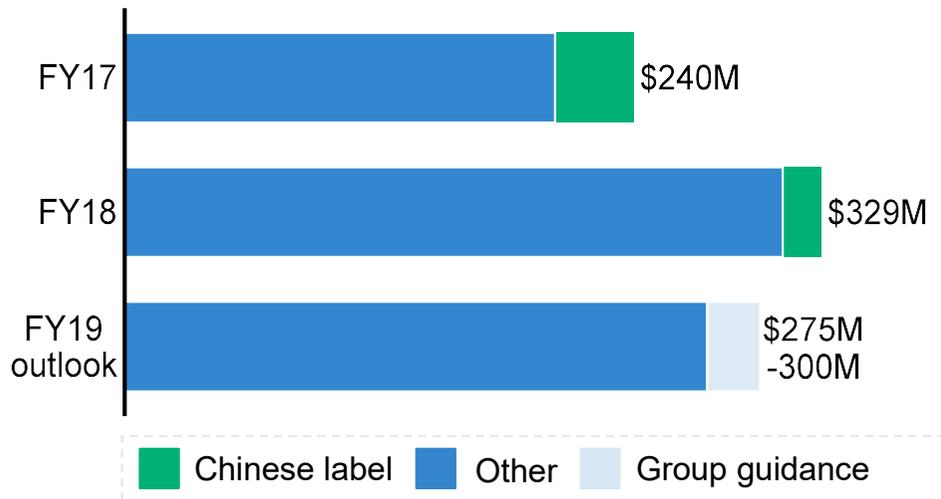
## ... CAPITALISE ON MACROTRENDS



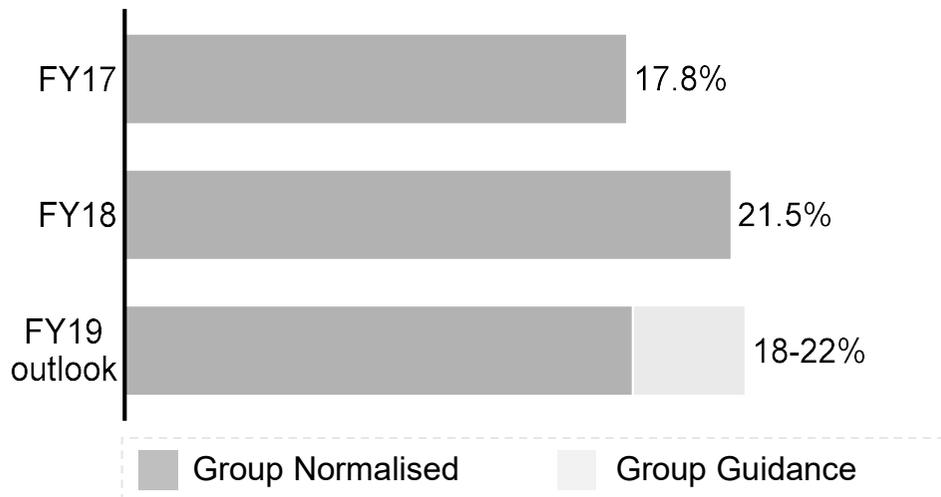
Source: Euromonitor, 'Baby Food' includes 'Dried Baby Food', 'Prepared Baby Food' and 'Other Baby Food'; Represents retail sales value (constant price, formal channels)

# FY19 financial outlook revised for 1H19 result

Group Revenue (\$M)



Group Normalised EBITDA margin (%)



## COMMENTARY

- Given the delay in SAMR registration, it is now possible to guide to Group Revenue
- Reflecting the 1H19 result and early Q3 trading, we anticipate full year Group Revenue to be \$275-300M
  - Allows for slower trading immediately prior to rebrand and during CNY holiday
  - Stronger trading expected following official launch in March
  - Rebrand likely to gain traction over a 12-18 month period
- FY19 Group EBITDA margin revised to 18-22% on a normalised basis, reflecting increased investment in marketing and the China team
- Confident in the medium-term rebrand and portfolio opportunity

