

AUSTRALIAN MADE  CERTIFIED ORGANIC

BELLAMY'S
ORGANIC

**Transforming the
#1 Organic Brand**

**FY19 Results Presentation
August 2019**



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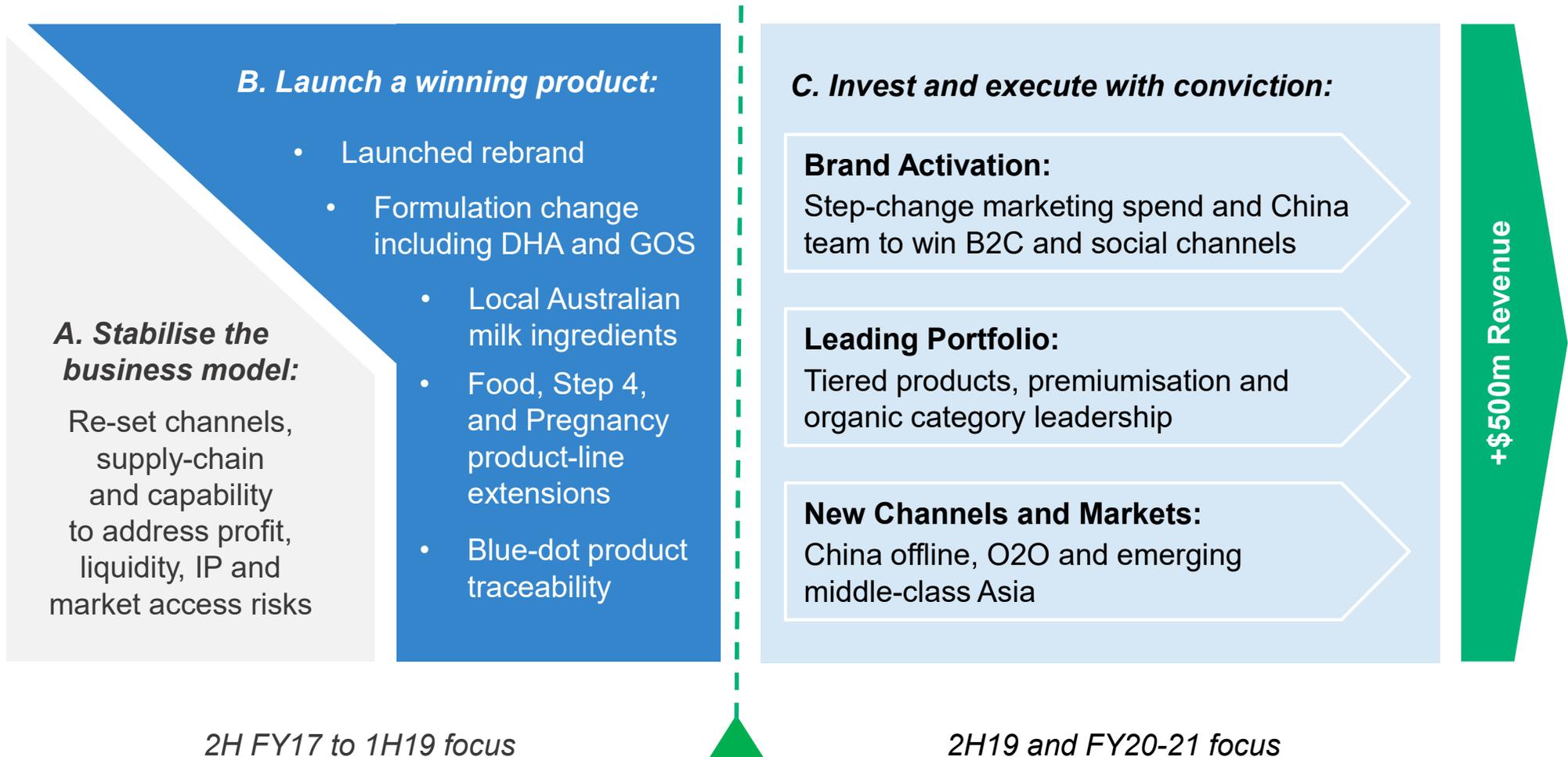
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Key messages

- **Our transformational rebrand is set to return the business to growth and is gaining momentum**
 - early indicators are positive since launch in March, including an uptick in e-commerce sales, brand interest and Step 1 and Step 2 recruitment in China, consumer pricing and trade economics
 - doubled investment in both marketing and China capability to activate the brand
- **The rebrand aims to address a challenging FY19 year which was impacted by regulation, a lower birth rate and increased competition for Chinese demand**
 - FY19 net revenue decreased to \$266m and normalised EBITDA was \$47m impacted by scale
- **The short-term reset is now complete and the business enters FY20 with a clean balance sheet, positive consumer momentum and a healthy trade dynamic**
 - legacy-label inventory written-off and market supply has been realigned to underlying demand
- **Beyond this, a number of positive initiatives give us high confidence in the coming period**
 - breakthrough new products, including Bellamy's organic ultra-premium and organic goat formula series
 - accelerated growth in our food business and the launch of a China offline food range
 - aggressive joint business plans with key e-commerce and social platforms in China
 - expected re-entry into the China offline formula channel and strong trade interest in the brand
- **Our FY20 outlook is 10-15% net revenue growth at an EBITDA margin consistent with prior year**
- **We remain confident in our growth strategy and medium-term target of \$500m revenue but have deferred this target beyond FY21 given the ongoing SAMR registration process**

Transformation delivery

TRANSFORMATION JOURNEY



In March we fundamentally transformed our brand



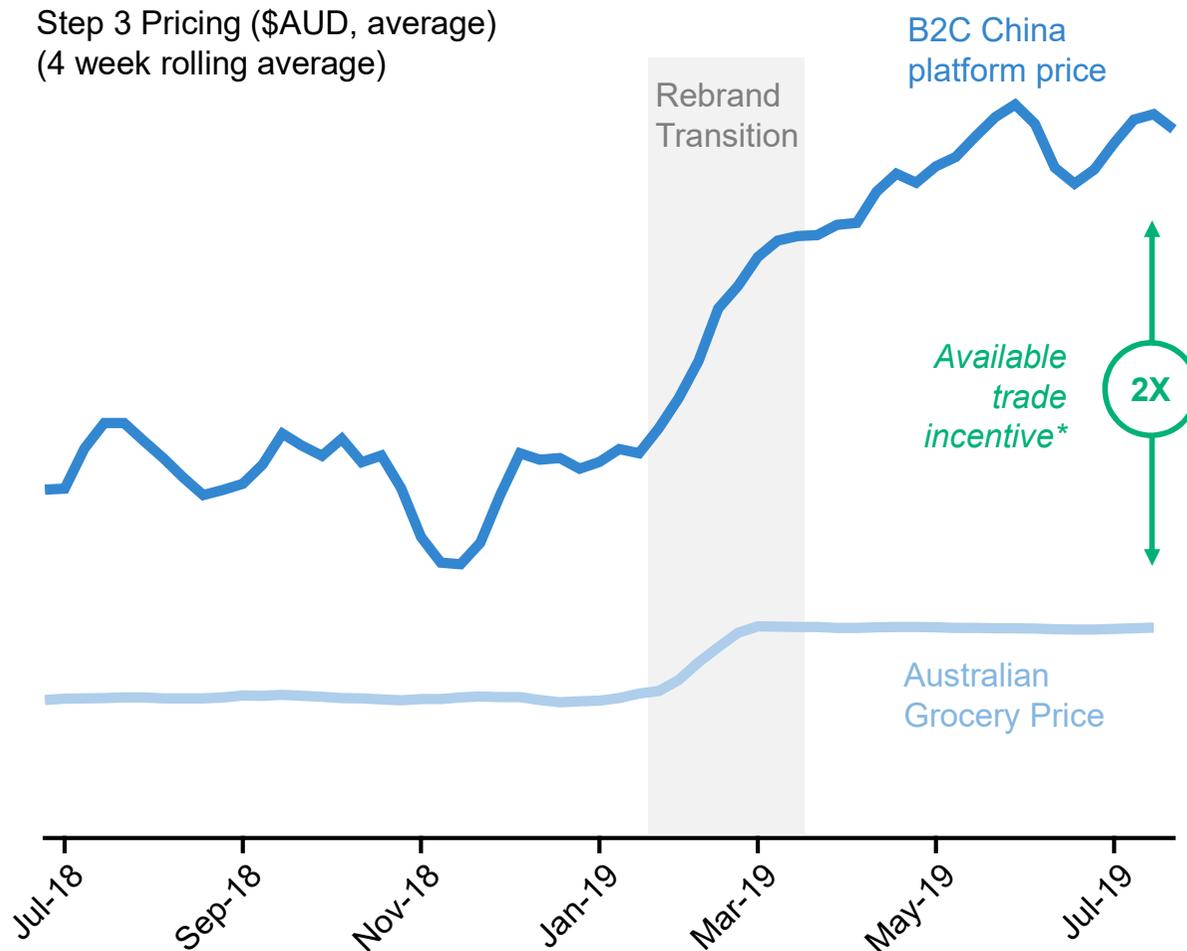
Repositioned a leading brand, with a winning product and focused marketing investment



Sources: Nielsen Research, Euromonitor, Morgan Stanley January 2019

Elevated price premium in China and lifted trade incentives

CONSUMER PRICE IN CHINA INCREASED +30%

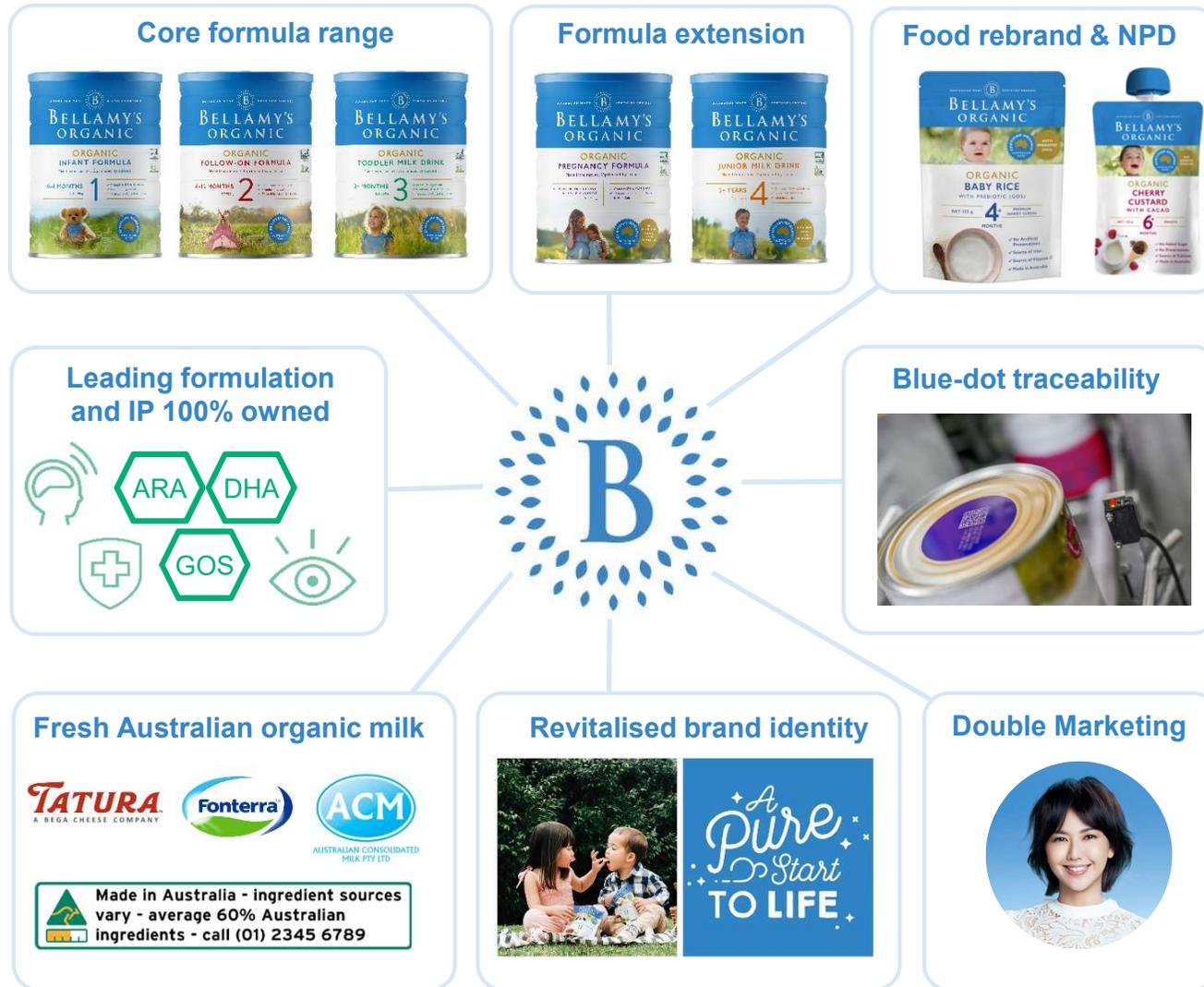


- Increased price premium in China by +30% to match positioning of major competitors
- Reset trade and channels to better balance supply with underlying consumer demand
 - Consolidated distribution network and trade inventory
 - Implemented disciplined supply management process

Short-term volume impact, for a stronger position with consumer and trade

* July available trade incentive has doubled versus prior corresponding period once adjusting for tax and parcel delivery
Source: IRI scandata; TDI, Kaola and JD platform pricing data, management analysis

Rebrand the most significant investment in company history



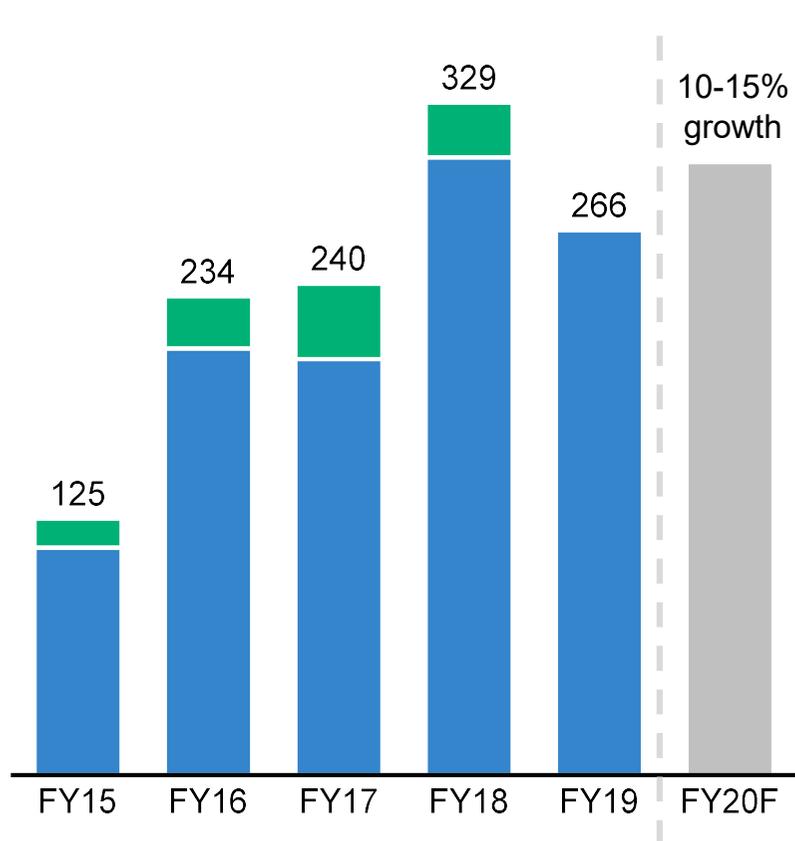
LAUNCH INVESTMENT

- A** Trade inventory reduction: to ensure a clean change-over and improved channel economics
- B** Inventory write-down: \$18m one-off write-down to accelerate the transition
- C** Doubled marketing spend: from 5.3% of revenue in 1H19 to 10.6% in 2H19
- D** Doubled the China team: to better activate the brand and engage consumers

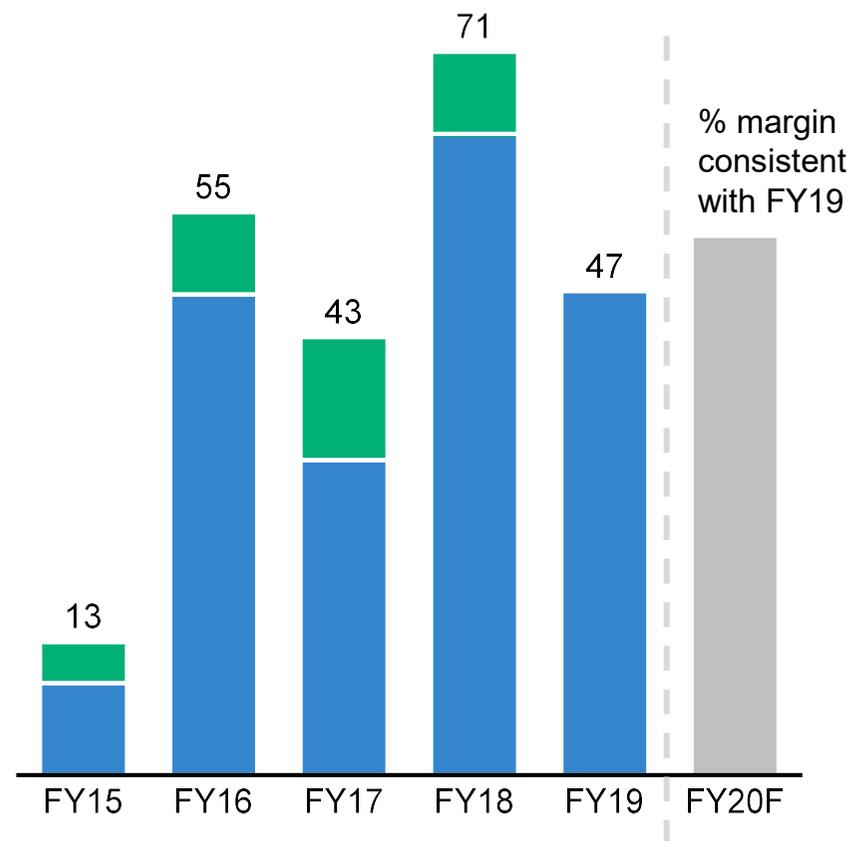
Note: Total inventory provision of \$18m split between 2H18 (\$6m) and 1H19 (\$12m)

This has set the foundation for a stronger FY20 outlook

GROUP REVENUE (\$M)



NORMALISED GROUP EBITDA (\$M)



■ Australian-label product ■ China-label PRC product (incremental contribution)

FY19 performance reflects lower revenue and higher investment

PROFIT & LOSS (\$M)		FY18	1H19	2H19	FY19	Growth vs pcp	
Core business – normalised	Revenue	320.0	127.7	123.3	251.0	-21.6%	
	Gross Profit	126.8	54.6	57.3	111.9	-11.7%	
	% of sales	39.6%	42.8%	46.5%	44.6%	+5.0%pts	
	Expenses	Direct*	(14.2)	(8.2)	(9.0)	(17.2)	21.1%
		Marketing	(14.6)	(6.8)	(14.5)	(21.3)	45.9%
		Other	(26.4)	(12.7)	(13.8)	(26.6)	1.1%
Total		(55.2)	(27.7)	(37.3)	(65.1)	18.1%	
EBITDA	72.1	26.9	20.0	46.9	-35.0%		
% of sales	22.5%	21.1%	16.2%	18.7%	-3.8%pts		
Camper-down	Revenue**	8.7	1.9	13.3	15.2	74.7%	
	EBITDA	(1.5)	(0.9)	0.9	0.0	n/a	
Group – normalised	Revenue	328.7	129.6	136.6	266.2	-19.0%	
	EBITDA	70.6	26.0	20.9	46.9	-33.5%	
	% of sales	21.5%	20.1%	15.3%	17.6%	-3.9%pts	
	NPAT	47.0	16.6	13.5	30.1	-36.4%	
Group - statutory	EBITDA	64.6	14.0	20.9	34.9	-46.1%	
	NPAT	42.8	8.2	13.5	21.7	-49.8%	

KEY DRIVERS

Core business

- Revenue of \$266m impacted by:
 - Loss of \$18m in China label sales
 - CBEC regulation, declining birth rate and increased competition
 - Rebrand transition
- Gross margin improved 5% pts driven by price and input costs
- Increased investment in marketing and China capability

Camperdown

- Camperdown now breakeven with growing external customer revenues

Statutory

- One-off \$12m legacy-label inventory provision prior to the rebrand

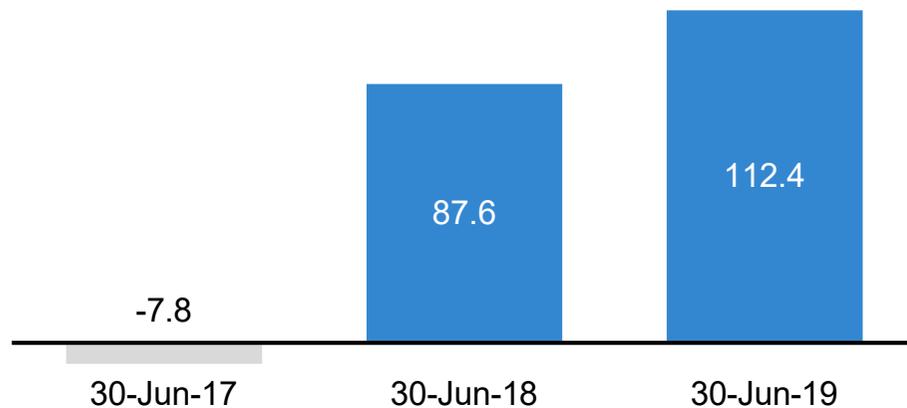
* Excludes one-off items as disclosed in the Financial Statements; ** Expressed net of intercompany transactions

Notes: EBITDA includes Other Revenue of \$1.0m (FY18:\$0.5m) not shown above; Total inventory provision of \$18m split between 2H18 (\$6m) and 1H19 (\$12m)

Normalised EBITDA is a non-IFRS measure and is presented net of one-off inventory write-down of \$12 million (FY18: \$6 million). The measure is considered more useful for analysis of company performance.

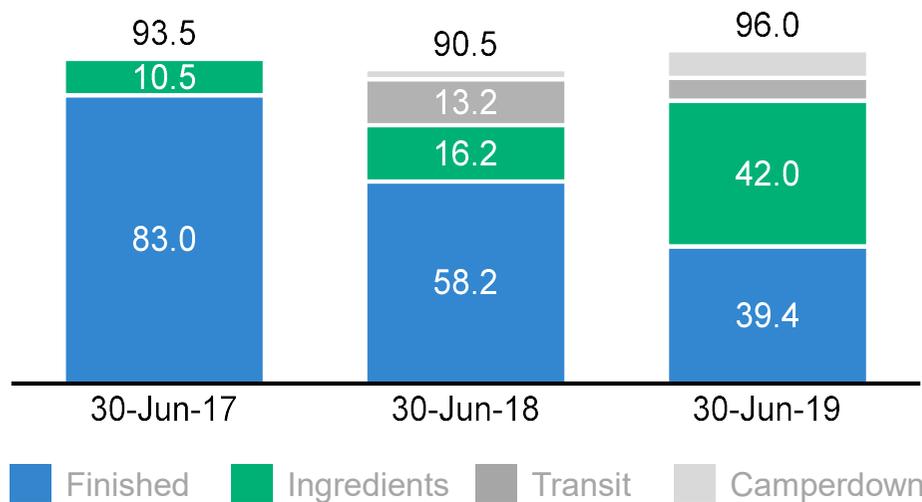
FY19 balance sheet remains strong and cash positive

GROUP NET CASH (\$M)



- Group cash balance up \$25m to \$112m
- Bellamy's continues to maintain zero debt, with access to a \$40m facility
- Supports growth agenda, including supply and demand-side investment evaluation

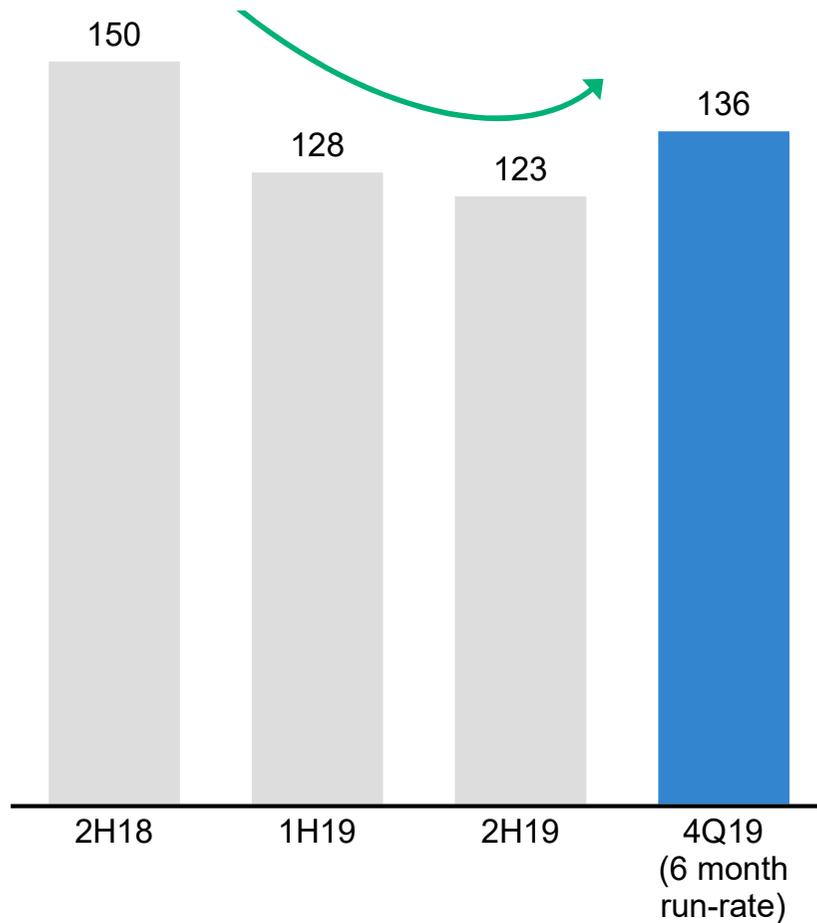
GROUP NET INVENTORY (\$M)



- Finished goods cover of ~3.6 months at year end within target range
- Ingredients increased with shift to direct sourcing model
- Camperdown increased with production

Stronger Q4 sales momentum since the rebrand

CORE BUSINESS REVENUE (\$M)



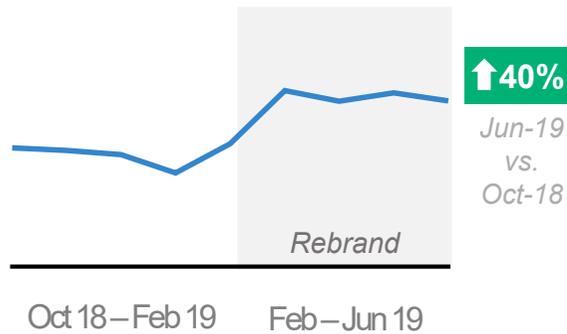
COMMENTARY

- More acute Q3 destocking prior to the rebrand than expected
- **Stronger performance and momentum since official launch in March**
 - Driven by China B2C and social channels
- Momentum achieved despite:
 - Higher retail prices in China
 - More disciplined supply management
 - Q4 CBEC regulatory changes and an observed impact to the daigou market
- 2H19 food performance particularly strong
 - Up 45% vs. 2H18 period
- **Heading into FY20 with positive momentum and a healthy trade dynamic**

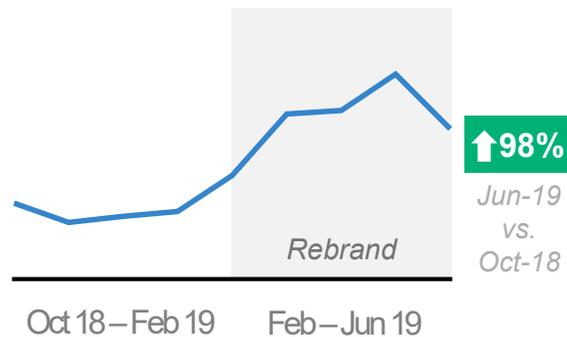
Positive early consumer indicators for the rebrand

Awareness

WeChat Buzz Index

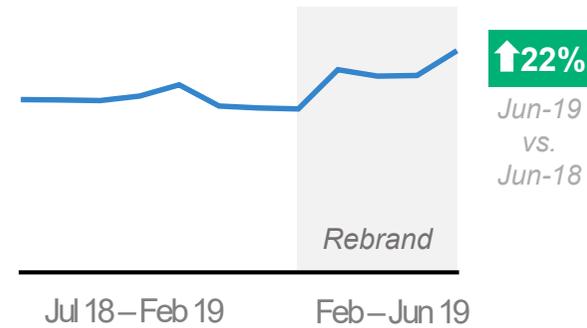


Website Traffic (unique views)

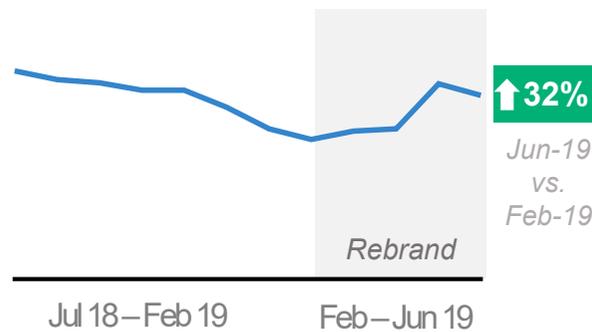


Interest

Tmall Traffic Index

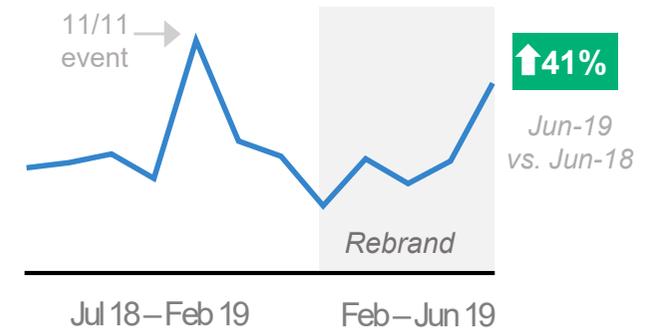


Alibaba stores selling BAL¹

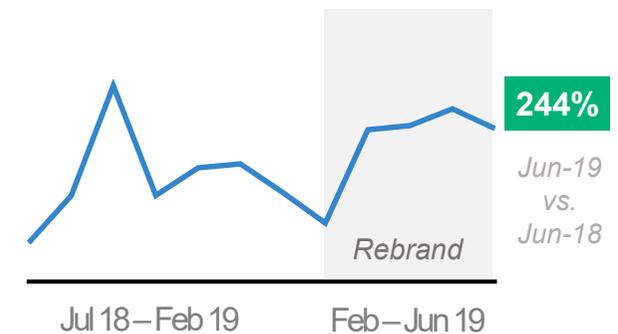


Purchase

China B2C Sales



China S1 & S2 sell-out Volume²



Note: 1. # stores on Ali ecosystem that sold BAL; 2. China distributor and Tmall flagship sales
Source: Alibaba, WeChat, Bellamy's website data, QBT data

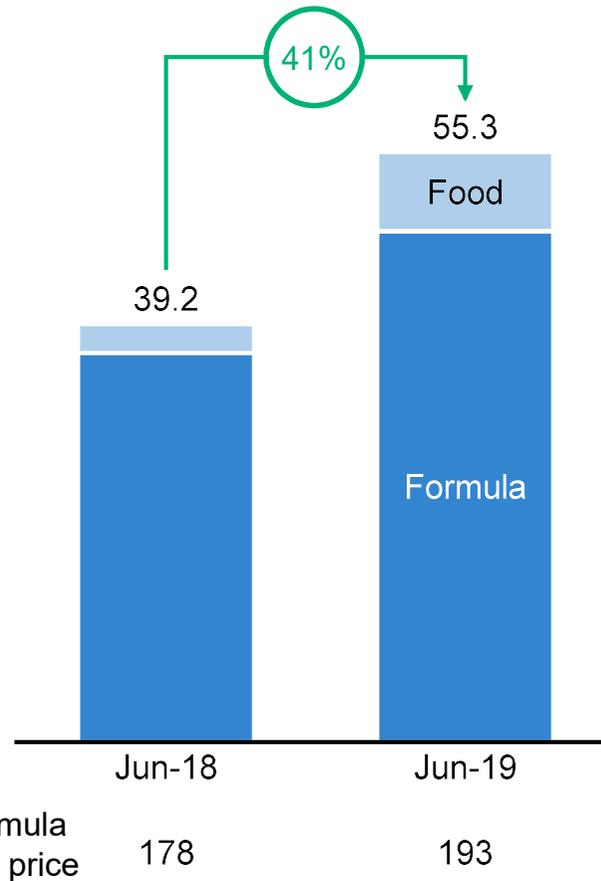
Results from recent 6/18 e-commerce event a strong proof point

6/18 the first major event since rebrand

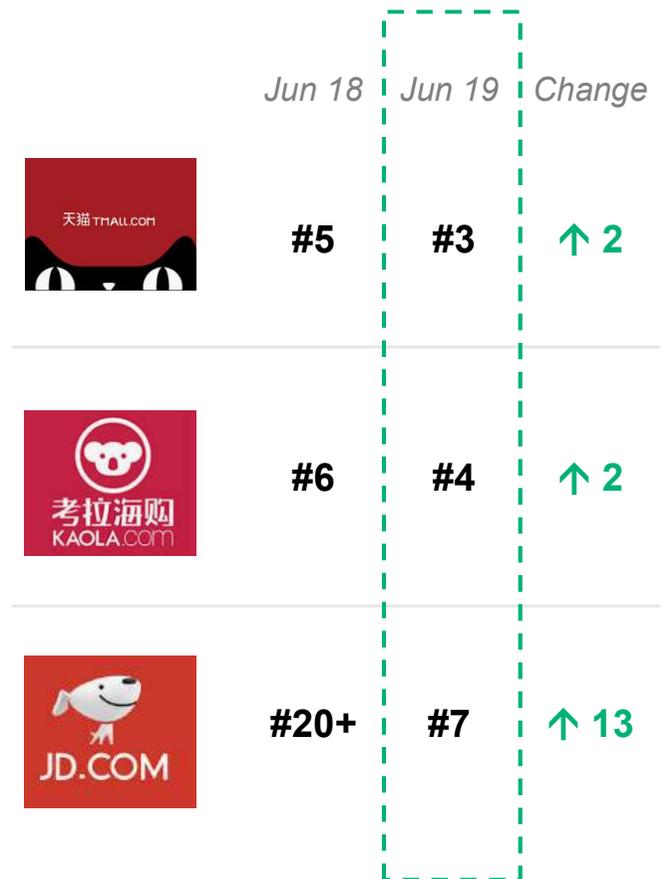


+41% YoY sales growth across CBEC platforms

Retail sales value(M RMB)



Formula rankings and share improved

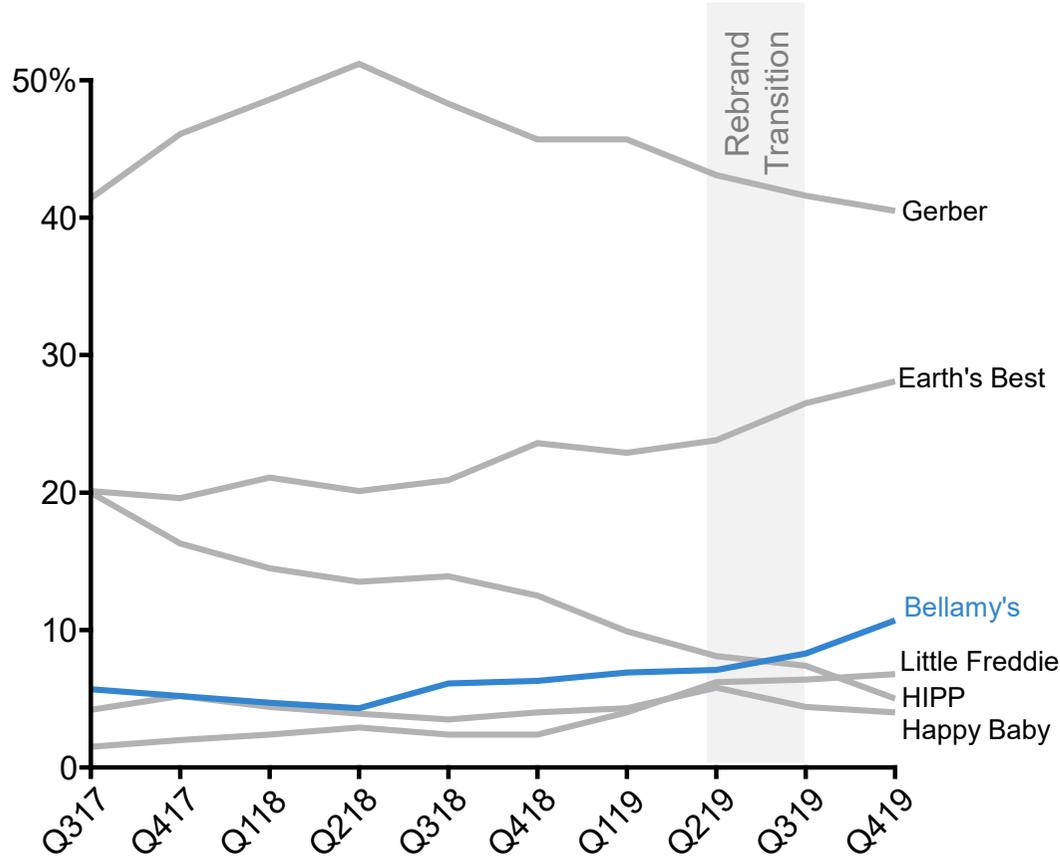


Note: CBEC platform data includes Tmall Flagship store, Tmall POP stores, Taobao, Kaola, JD, TDI, VIP, MIA, Suning and Yunji
 Source: QBT, Alibaba, Kaola, JD, TDI, VIP, MIA, Suning and Yunji

Food rebrand launched in September 18 is building strong momentum

BELLAMY'S FOOD RANGE EMERGING AS A DOMINANT E-COMMERCE BRAND

Cereal online share (CBEC)



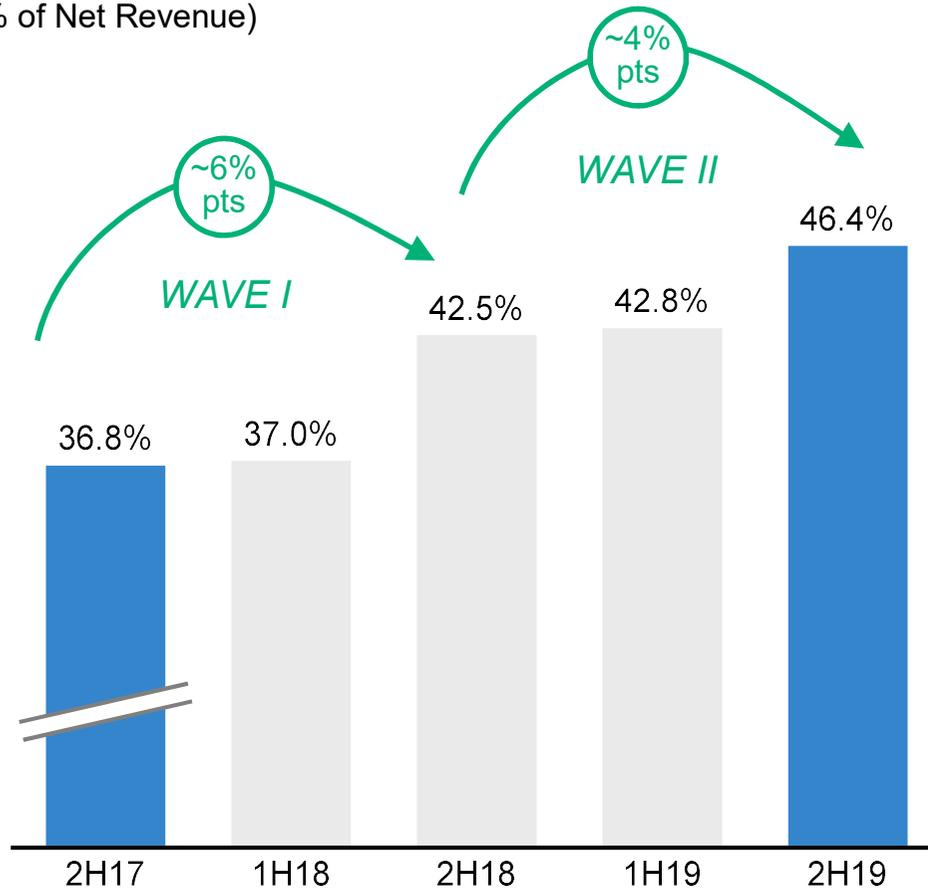
Source: Smartpath



Gross margin continues to expand and fuel investment

GROSS MARGIN GREW 10%PTS

Core Business Gross Margin
(% of Net Revenue)



KEY DRIVERS

WAVE I

- Reduce promotional discounts
- Ingredient procurement savings
- Optimise customer channel mix

WAVE II

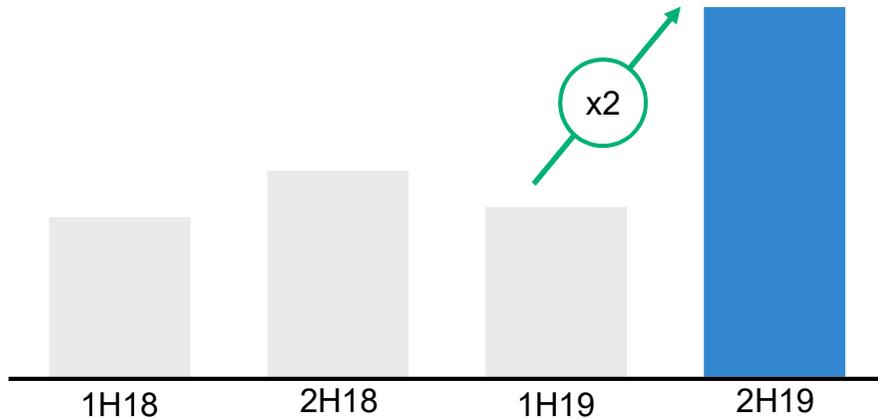
- Price increase on rebrand transition
- Further procurement savings to offset cost of product upgrades

WAVE III

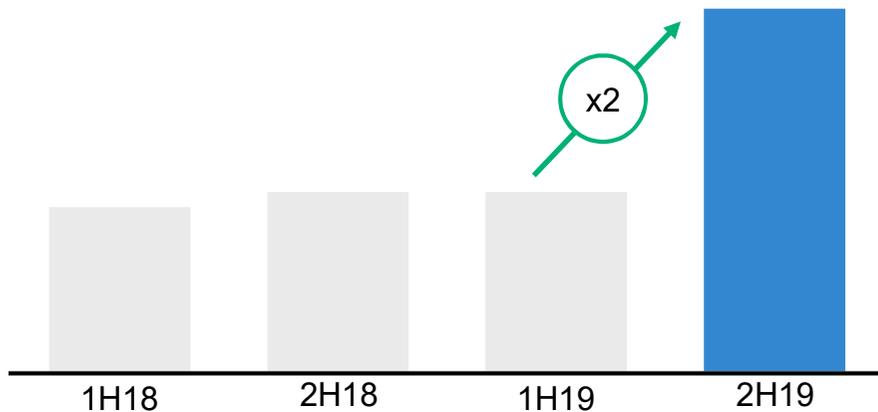
- Launch premium innovation portfolio
- Scale liquid milk ingredients
- Grow B2C e-commerce channel mix

Reinvesting gains in China marketing, capability and our product

MARKETING SPEND (\$M)



CHINA TEAM HEADCOUNT (FTEs)



CORE PRODUCT INVESTMENT



- Invested **incremental \$4m p.a.** in key functional ingredients and superior formulation

NEW PRODUCT INVESTMENT



- Invested **incremental \$5m** in breakthrough new product pipeline to be released in FY20 and beyond

Step change in marketing activation (doubled spend in 2H19)

Refresh of all digital assets with powerful content and claims



Outdoor campaigns



Platform campaigns



Founders story



City events and A-grade ambassador



Online search, social presence and +500 KOLs



Building a winning capability in China to activate the brand and engage consumers

DOUBLED OUR CHINA CAPABILITY ...



...TO FOCUS ON FOUR PRIORITIES



Step-change e-commerce growth

- Dedicated key account and trade marketing for B2C and Social platforms



Lift online search and social presence

- Demonstrate brand credibility through official digital assets
- Drive frequency and ranking of user content (e.g. Little Red Book)



Increase trade (or "trial") marketing

- Sampling, bundling, mother classes



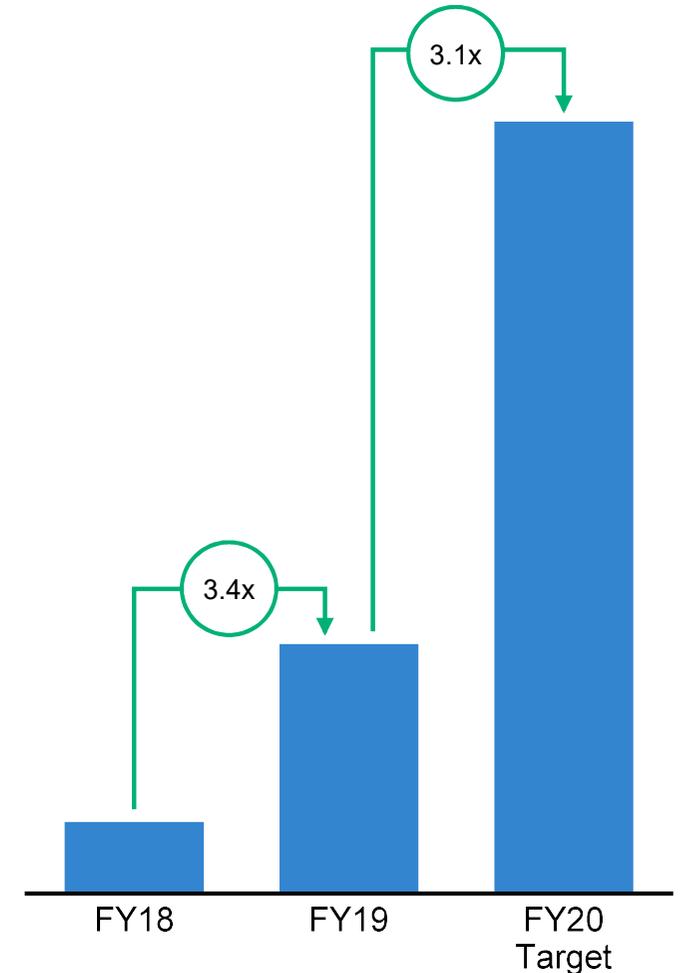
Mobilise for offline channel recruitment

- New O2O CRM recruitment platform
- PRC (China-label) distribution system

Investing heavily in social e-commerce partnerships and expect to be a material source of incremental growth

SOCIAL PLATFORM JOINT BUSINESS PLANS TARGETING \$20M FY20 RETAIL SALES

		Model	Approx. users	Ranging
	Little Red book	User sharing and reviews	200m	Existing
	Yunji	Membership based platforms	45m	Existing
	Global Scanner (Zebra Prime)		60m	New
	Mia		50m	New
	Omall		10m	New
	Yitao		10m	New
	Pinduoduo	Group shopping	400m	New



Source: Platforms, media articles

E-commerce product pipeline will further premiumise and extend our addressable market

BREAKTHROUGH E-COMMERCE PRODUCT PIPELINE



NEW PRODUCTS

- **Organic Ultra-Premium**
 - Premiumise and extend existing customer base
 - Focus on advanced "science" proposition
- **Organic Goat Formula**
 - Extend addressable market to goat segment (~\$2.0b AUD in 2018 and +43% annual growth)
 - Focus on "gentle" proposition

Note: Artwork is illustrative and yet to be finalised; Market size expressed as retail value; CAGR from 2013-2018
Source: China Academy of Social Sciences

Remain confident in our SAMR application and are ready to activate our China offline strategy



Confident in Camperdown application

- Timing of Australian facility audits not yet confirmed
- We note several European countries recently audited with some brands approved
- Invested +\$4.5m in facility and expert advisors in anticipation for an audit



Taken control of sub-distributor relationships, key accounts, pricing and trade marketing

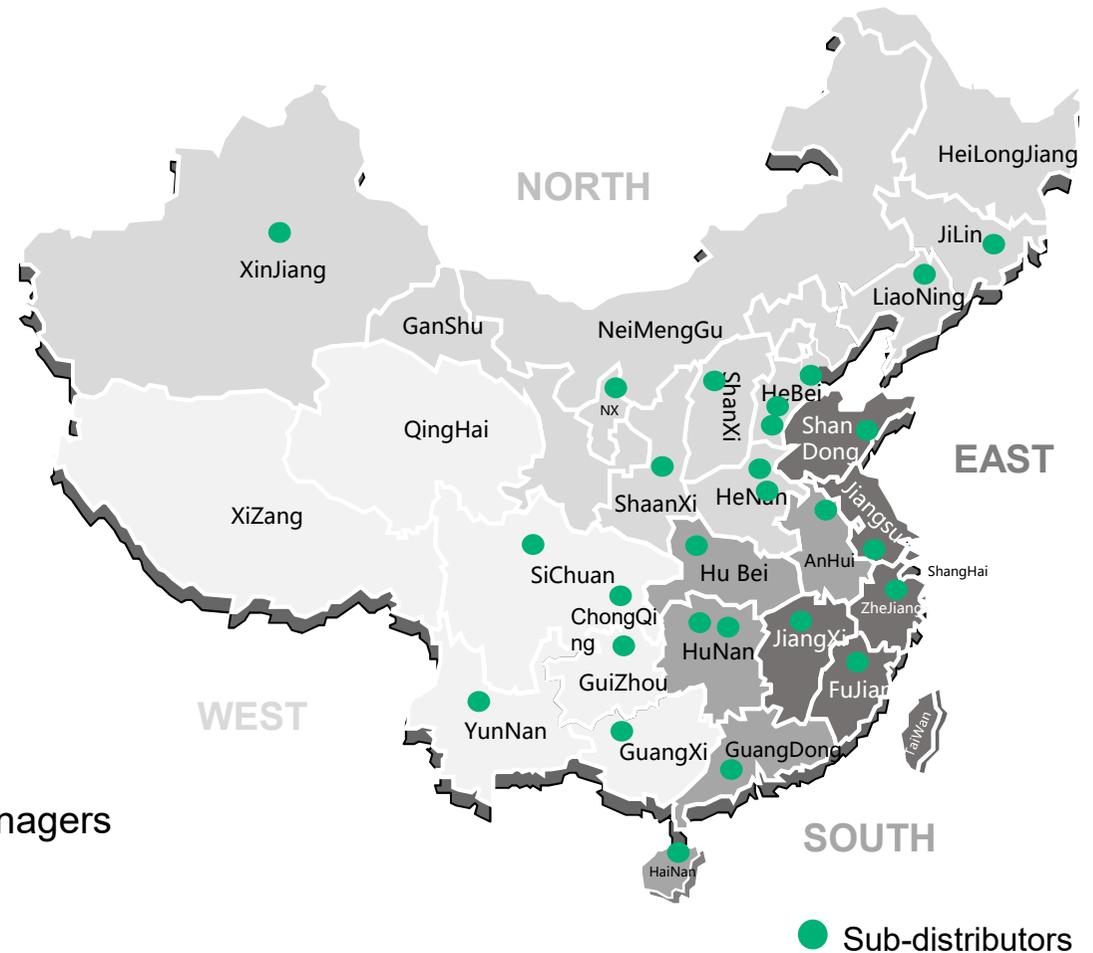


Prioritising geographies and establishing RKA focus versus historical NKA focus



Recruited proven China Sales Director and recruiting north, south, east and west sales managers

OFFLINE SUB-DISTRIBUTOR NETWORK



Note: RKA is Regional Key Account and NKA is National Key Account

China offline product pipeline to drive deeper penetration and extend into functional foods



FORMULA SERIES

Product:

- New Australian made **Certified Organic** formula with DHA



FORMULA SERIES

- Existing Australian made formula with **Lactoferrin** and DHA



FUNCTIONAL FOOD

- New Australian made **Organic Cereals** and **Ambient Yogurts**



Status:

Submitted and pending SAMR audit and approval

Artwork amendment approved and awaiting final certificate

Developed and in position to launch early 2H20

Focus:

- Ultra-premium segment
- PRC offline with skew to tier 1, 2 & 3 cities

- Premium segment
- PRC offline with skew to tier 3 & 4 cities

- Ultra-premium segment
- PRC offline and e-commerce channels

Note: Artwork is illustrative and yet to be finalised

Rollout continues in emerging middle class markets

NOW RANGED IN ~500 STORES IN VIETNAM



Vietnam

AUD \$1b market (2015)
Growing 10-15% p.a.

ENTER INDONESIA & PHILIPPINES IN CY20

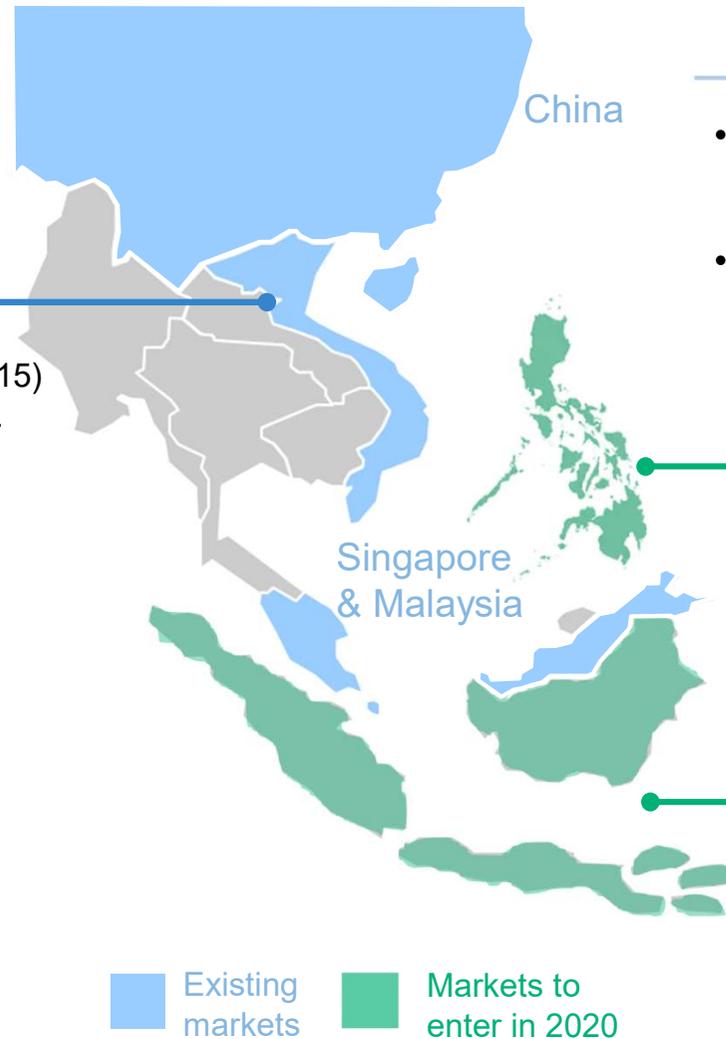
- Identified distributors for both regions
- Currently working through 12 month regulatory process

Philippines

AUD \$1.6b market (2016)
Forecasted to grow at 3-4% p.a.

Indonesia

AUD \$2.9b market (2016)
Growing at 8-10% p.a.

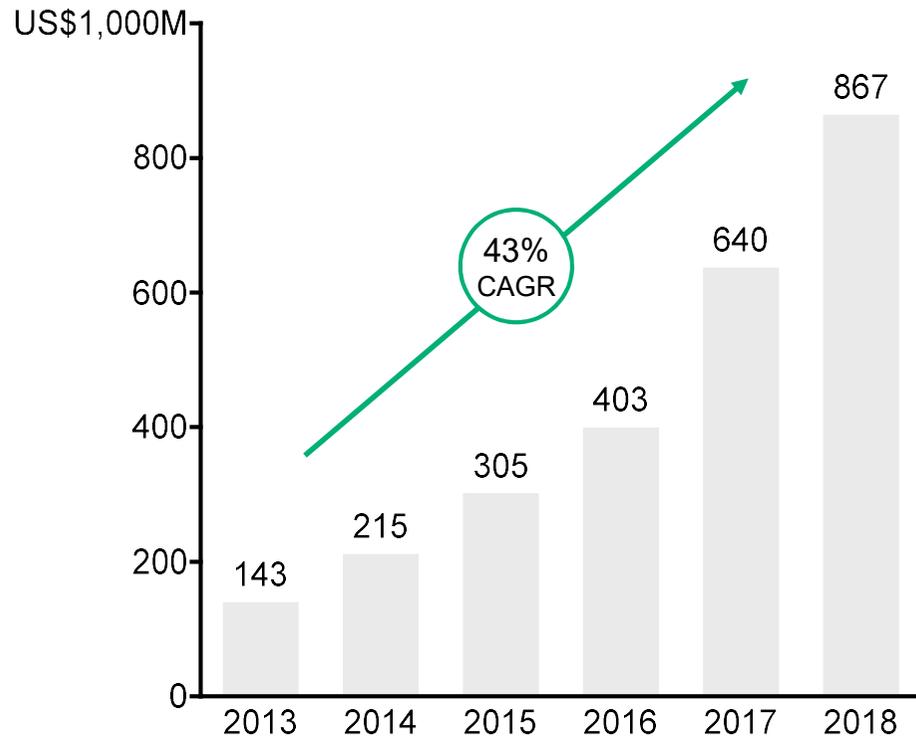


Source: Global Data (Baby Food in Indonesia (2016), Baby Food in Philippines (2017), Baby Food in Vietnam (2017))

Longer term, organic remains a significant and global macro-trend

CHINA ORGANIC BABY FORMULA

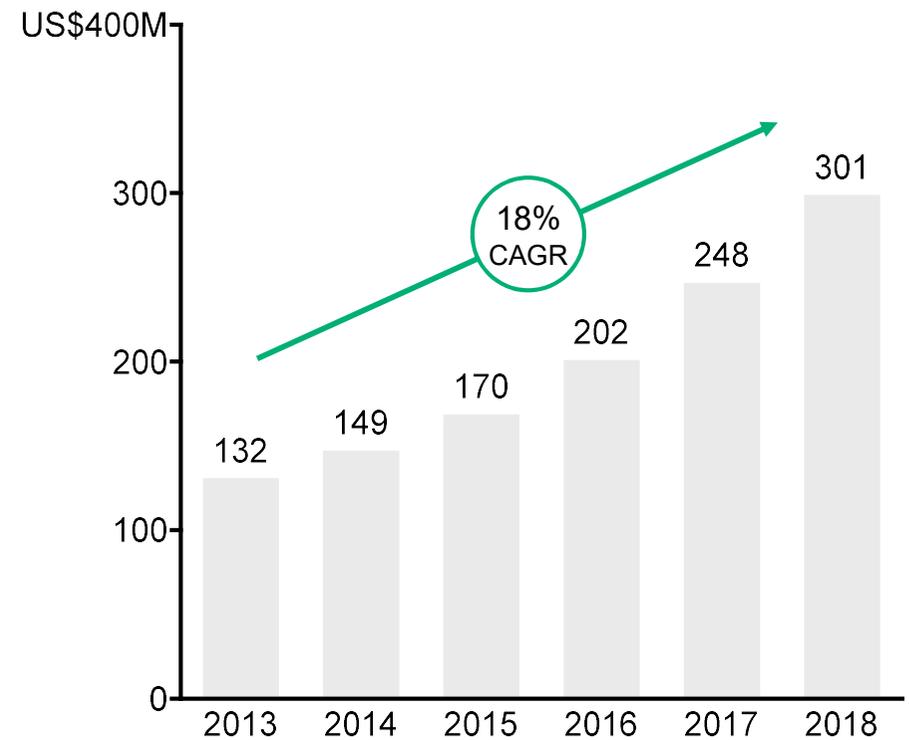
Retail sales value (constant price, formal channels)



YoY % growth: 100% (2013), 50% (2014), 42% (2015), 32% (2016), 59% (2017), 35% (2018)

CHINA ORGANIC BABY FOOD

Retail sales value (constant price, formal channels)



YoY % growth: 12% (2014), 14% (2015), 19% (2016), 23% (2017), 21% (2018)

Source: Euromonitor 2018 data, 'Baby Food' includes 'Dried Baby Food', 'Prepared Baby Food' and 'Other Baby Food'

Highly strategic position in the organic dairy industry

CONSUMER BRAND

SUPPLY CHAIN

#1 Australian organic infant formula brand

#1

10+

Integrated organic infant formula supply chain created over 10+ years

#2 Global organic infant formula brand

#2

Strategic and highly scalable partnerships with leading organic co-ops and processors

#3 Organic brand awareness in China with consumers

#3

Diversified sourcing model with material contracts for Australian organic milk pools

Leading organic formulation, including highest level of DHA*



Camperdown CNCA approved facility



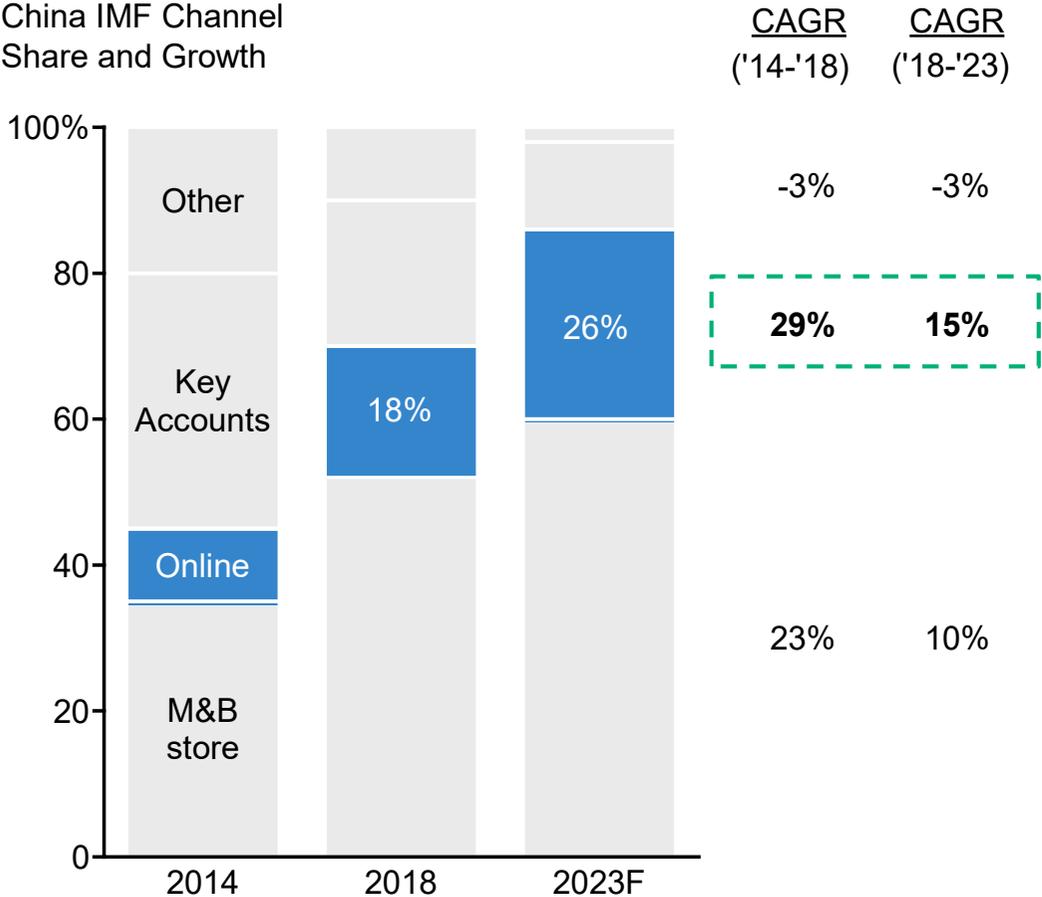
* Amongst leading global organic toddler milks
Sources: Euromonitor 2018, Citibank Aug 2018, Monash University

Prior to SAMR approval, our existing markets have headroom for significant growth

E-COMMERCE A \$9B RETAIL MARKET

GROWTH SET TO CONTINUE

China IMF Channel Share and Growth



- Online disruption will continue
 - Rapid online penetration into tier 3 & 4 cities which represent 66% of households
 - Offline prices in China arguably not competitive with cross-border
 - Relative ability to innovate is strong vs offline
- Bellamy's is a power e-commerce brand and uniquely positioned to gain channel share
 - Stronger product, branding and marketing activation
 - Breakthrough innovation pipeline

Source: JP Morgan; Nielsen

FY20 financial outlook

Group revenue (\$m)



- FY20 group revenue expected to grow 10-15% on prior year
- Growth anticipated to accelerate in 2H20 with new product launches
- Medium-term \$500m ambition remains but deferred beyond FY21 given SAMR process

Group EBITDA margin (%)



- FY20 group EBITDA margin expected to be consistent with prior year
- Continued strong gross margin and investment in marketing and China capability
- Long-term target of +20% supported by scale and premiumisation strategy

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