

ASX Announcement

21 February 2020

BWX LIMITED – FIRST HALF FY20 FINANCIAL RESULTS

Financial Highlights

- On track to meet full year FY20 guidance of revenue growth of 20%-25% and EBITDA growth at 25%-35%.
- Net revenue increased 23% to \$84.1 million (1H19: \$68.1m)
- Statutory NPAT increased 63% to \$4.2m (1H19: \$2.6m)
- EBITDA¹ increased 63% to \$11.6m (1H19: \$7.1m)
- Strong balance sheet with net cash position increasing to \$14m (FY19: \$12m)
- Interim dividend of 1.3 cents per share (1H19: Nil)

Operating Highlights

- Sustainable revenue growth across engine markets of APAC and North America
- Exited 16 markets in 1H20 consistent with market prioritisation strategy
- Disciplined brand investment and expansion
 - Sukin selling across almost 1,000 US distribution points including 330 USA Target stores since January 2020; Coles partnership strengthened and extended
 - Mineral Fusion experienced strong growth in 1H and further growth expected post-successful launch in 770 USA Target stores in February 2020
 - Andalou Naturals rollout in Australia continues with new retail partners
 - Nourished Life online platform upgraded, supporting growth in orders, basket size and members
- Strategic investment in people and marketing to support revenue growth
- ERP delivering incremental improvement in Australia; US launch on track and on budget
- Three Year Strategic Plan developed

Melbourne, Australia – BWX Limited (ASX: BWX or “the Group”) today announced its first half 2020 financial results for the period ended 31 December 2019. The Group has delivered a strong financial performance in the first half, with net revenue growing 23% to \$84.1m and underlying EBITDA increasing 63% to \$11.6m (\$9.9m or +40% when excluding impact of AASB 16 Leases), to be on track to meet the full-year FY20 guidance. Underlying net profit after tax was \$4.2m.

¹H20 EBITDA excluding AASB 16 Leases is \$9.9m (+40%) on prior corresponding period.

Commenting on the result, BWX Group CEO and Managing Director, Mr Dave Fenlon, said:

“BWX is experiencing strong momentum in its evolution into a global, category leading ‘House of Natural Brands’. Our brands have an increasingly deep connection to consumers which is reflected in the Group’s strong growth in the first half.

The first half of FY20 saw the Group deliver on what we said we’d do. We have ceased unprofitable promotions; we have clearly defined our engine markets for growth and exited 16 countries; we are investing in direct-to-consumer marketing to educate and grow our addressable market; and we are focused on consumer-led innovation in new product development, all underpinned by a multi-channel retail approach and user-friendly digital platforms that accelerate direct-to-consumer access.

Relentlessly driven by our four strategic pillars, BWX enters the second half with increased capability and a three-year strategic roadmap encompassing ongoing business improvement and growth initiatives to deliver sustainable business performance for all stakeholders.

The Group will continue its investment in brand building, capability and innovation to drive deeper connections with consumers globally while maintaining a sharp focus on controlling our cost base to support 20-25% revenue and 25-35% EBITDA growth for the full-year FY20.”

1H20 FINANCIAL PERFORMANCE

Revenue and Brand Review

Group net revenue for 1H20 was \$84.1m, an increase of 23% on the prior corresponding period. This outcome was driven by strong sales momentum, spread across BWX’s engine markets of Australia, North America and International markets.

Net revenue (AUD millions)	1H19	1H20	% change	% of Group Revenue
Sukin	\$23.2	\$33.1	+43%	39
Andalou Naturals	\$22.7	\$26.2	+15%	31
Mineral Fusion	\$9.9	\$12.7	+28%	15
Nourished Life	\$10.8	\$11.3	+5%	14
Other	\$1.5	\$0.8	-49%	1
Total	\$68.1	\$84.1	23%	100

Sukin

Sukin net sales were \$33.1m, a 43% increase on the prior corresponding period reflecting the increasing availability of the brand to consumers in APAC and the US. Importantly, the growth was achieved with improved stock level controls.

Scan-data shows Sukin is continuing to outperform the Natural segment in pharmacy with 7.9% growth versus -5.2% for the category.

In Australia, Sukin’s robust performance was supported by the Coles partnership where it experienced sales growth (MAT) of 29% in skincare sales during the half. The strategic partnership was extended and strengthened during the period to provide increased shelf space and foster greater collaboration aimed at fast tracking new product development to meet growing consumer

demand.

In the US, Sukin continues to expand its market share, with the total number of distribution points now over 1000. 19 of Sukin's products launched online and in 330 Target USA stores nationwide during December 2019 and January 2020, respectively.

The strong growth ensures BWX is tracking well towards its long term objective of unlocking a \$50m supermarket skincare business in Australia and a \$100m conventional and mass skincare business in the US.

Sukin is performing well in other international markets with BWX's prioritisation strategy delivering efficiency benefits. Sukin successfully executed brand launches in Indonesia and Vietnam during the half and is taking a measured approach to expansion in Europe with growth coming from the UK and Germany, as well as in New Zealand and Canada.

Andalou Naturals

The 1H20 sales for Andalou Naturals were \$26.2m, an increase of 15% on 1H19. Anadolu Natural's growth was driven by continued strong sales performance in the US and increasing penetration in the Australian market.

Andalou Naturals market share remains strong and is the number one USA brand in the natural channel in facial skincare. In Australia, Anadolu Natural's rollout with new pharmacy retail partners has accelerated. While from a relatively small base, Andalou Naturals sales in Australia have grown 73% demonstrating the increasing popularity of the brand amongst Australian consumers and effectiveness of the multi-brand strategy across engine markets. Plans are underway to significantly broaden distribution in the second half.

Manufacturing of Andalou Naturals at BWX's Dandenong facility was successfully trialed in December 2019 proving the business case to bring Australian production online. A timetable is currently being finalised with a view to supporting the increasing penetration of Andalou Naturals in the APAC region.

Mineral Fusion

Mineral Fusion 1H20 sales were \$12.7m, a 28% increase on the prior corresponding period driven by the ongoing benefits of the packaging relaunch and the continued strong performance within the US Natural category.

After the period end, Mineral Fusion launched across 770 USA Target stores and online in February, significantly extending its reach to customers in the US.

In Australia, the brand is now fully integrated with the Nourished Life platform which will underpin its growth in this market as customer demand for natural cosmetics accelerates.

Nourished Life

Nourished Life first half sales were \$11.3m, an increase of 5% on the 1H19. Pleasingly, the second quarter showed a material increase in revenue growth following the launch of the refreshed Nourished Life website with an enhanced user experience.

While daily orders, conversion rates and basket size have all demonstrated improvement in the first half, the Group is focused on continuing to deepen customer basket size while controlling freight costs to generate improved margin performance.

Nourished Life's loyal base of customers continues to grow with club membership increasing by 13% to 324,045 since June 2019.

Nourished Life remains strategically important to BWX's growth given it represents the leading digital platform for deep consumer insights on natural wellness and beauty trends. BWX will leverage these insights through the development of a data analytics plan to support decision making and add value across the Group's brand portfolio.

OPERATIONAL AND STRATEGIC DEVELOPMENTS

Capability

In the period since June 2019, BWX has added significant capability across the business.

David Fenlon was appointed Group CEO and Managing Director effective 1 July 2019.

The Group appointed Micheal Lovsin as Managing Director North America (USA), Virginie Descamps as Chief Marketing and Revenue Officer (USA) and Allison Smith as Chief Technology and Strategy Officer. These appointments have strengthened the Group's capability while increasing alignment between the Group executive team across its engine markets.

To support the Group's international growth, Rory Gration, Managing Director Asia Pacific, will take on additional responsibility for Group Operations and International Revenue.

In his new role of Managing Director APAC & Group Chief Operations Officer, Rory will retain oversight of the APAC region with added responsibility for group manufacturing, supply chain, procurement and driving revenue across all international markets, excluding North America. He will continue to report directly to the Group CEO.

As announced separately today, Efee Peell will be joining as Group Chief Financial Officer of BWX from 23 March 2020, succeeding Vinod Somani.

BWX has added to its team in the United States with key hires in sales, inventory management and warehousing, while in Australia key hires have been made in sales, innovation, marketing and governance.

The Group continues to manage its cost base carefully to ensure people costs as a percentage of net revenue remain within the target band.

Operating Infrastructure and Efficiency

Manufacturing efficiencies have continued to increase month-on-month through the first half as an outcome of a dedicated continuous improvement program supported by analytics and training.

The ERP is delivering incremental improvements across the Australian business and it is expected to deliver similar benefits in the US once the ERP is launched in the second half, which remains on track and within budget.

The Group is executing a number of cost-efficiency measures including improved collaboration on procurement between APAC and North America and establishing direct relationships with key suppliers.

Strategic Priorities

BWX continues to be focused on its four strategic priorities underpinning the business direction and turnaround, including how the Group will measure success. The following key initiatives are underway as part of a defined three year strategic roadmap:

Connect to Consumers

- Investment in direct-to-consumer marketing to educate and grow addressable market

- Focus on shelf strategy with retail partners increasing exposure to new product innovation
- NPD pipeline to unlock growth ahead of market in anti-ageing, hydration and blemish control
- Investment in BWX e-commerce channels and ongoing user-experience enhancements

Go Global, Go Mainstream

- Tracking towards a \$50m supermarket skincare business in Australia and a \$100m conventional and mass skincare business in the US
- Pursue organic growth through strong retail relationships and geographic/channel expansion
- Measured growth in China-influence sales through CBEC platform and daigous

Get Clean & Get Healthy

- Manufacturing efficiencies through aggressive continuous improvement program leveraging analytics and training
- Investment in ERP system upgrade
- Active management of SKUs focused on reducing unprofitable SKU count by 12.5% in FY20
- Improved collaboration on procurement and sourcing between APAC and US teams

Invest in Ourselves

- Ongoing investment in capability to support growth while carefully managing cost base
- Strong sustainability focus at Group level including initiatives toward 100% recyclable, carbon-neutrality and zero-waste
- Improve employee engagement – targeting employee NPS score of 75.

FINANCIAL REVIEW

Gross profit margin

Gross profit margin increased by 20 basis points vs 1H19.

Operating expenses

The 15% increase in operating expenses is primarily attributable to the Group's strategic investment in marketing and capability. Importantly, expenses are tracking well below sales growth demonstrating the Group's sharp focus on controlling its cost base.

Net profit after tax (NPAT)

Compared to the prior corresponding period, underlying NPAT increased 63% to \$4.2m. Reported NPAT was \$4.2, the small differential between reported and underlying numbers reflecting \$0.1m in non-recurring items relating to acquisition and restructuring expenses during the period.

Cash generation and working capital

BWX's cash position remains healthy, improving to \$14m from \$12m in 1H19. The group delivered a significant improvement in operating cash flow in 1H20 of \$8.4m compared to -\$7.3m in 1H19 while cash generation is strong with the Group recording a cash conversion ratio of 72%.

The Group continues to adopt an effective approach to working capital, ensuring it is well maintained to provide flexibility and support sales growth.

Balance sheet

The Group has maintained a strong balance sheet and has maintains gearing at 19% (14% excluding application of AASB 16 Leases). Receivables and inventory increased moderately compared to June 2019 to support sales growth while the increase in trade and other payables over the same period is a reflection on timing of supplier payments.

In accordance with AASB 16 Leases accounting standard, the Group now recognises leases as finance leases. This results in recognition of a right of use asset of \$11.8m and a lease liability \$13.8m.

Dividend

A fully franked interim dividend of 1.3 cents per share has been determined for 1H20 and is within the dividend payout guidance of 35-50%.

Outlook

The Group is actively monitoring the coronavirus situation which continues to evolve. BWX continues to operate as normal whilst observing the relevant government travel advice. BWX's China-influenced 1H20 revenues represented less than 5% of Group revenue and this is expected to remain steady for the balance of the year. The Group is confident that its prioritised international strategy would offset any potential China-related shortfall in the second half.

While the Group continues to closely monitor external market conditions and the macroeconomic environment, BWX remains well positioned with category leading brands underpinned by material growth trends favouring natural products.

The Group will continue its investment in brand building, process improvement, capability and innovation – driving deeper consumer penetration and basket size – to support 20-25% revenue and 25-35% EBITDA growth for the full year FY20.

ENDS

BWX will host a Results Briefing and Webcast on **Friday 21 February at 9.30am AEDT**. Participants can dial one of the following numbers, or can join a webcast via the below link.

Participant toll: +61 2 8038 5221
Participant toll-free: 1800 123 296
Conference ID: 7098884
Webcast link: https://webcast.openbriefing.com/5800/
To ask a question, participants will need to dial “*1” (star, 1) on their telephone keypad.
International dial-in details: 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 30082034
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 the BWX website.

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