BWX LTD
Unit 1, 45-49 McNaughton Road, Clayton VIC 3168
+61 3 8785 6300 www.bwxltd.com ACN: 163 488 631

The Natural Beauty & Wellness Company

ASX Announcement

19 December 2022

FY22 FINANCIAL RESULTS, REVENUE RESTATEMENT, IMPAIRMENT, EXPANDED WORKING CAPITAL FUNDING AND FY23 OUTLOOK

Summary

- Statutory NPAT loss of $335.6m, Profit Attributable (PA) Loss of $337m, and includes a $322.6m non-cash impairment related to reduction in carrying value of intangible assets
- Underlying PA loss of $2.7m excluding the $322.6m non-cash impairment, Acquisition related costs ($2.4m after tax), Share of Associate losses/Non Controlling interests ($2.1m) and non- cash equity linked partnership agreement ($6.2m)
- FY22 revenue and EBITDA:
  - On a statutory basis, revenue of $198.3m, EBITDA loss of $6.4m
  - On an underlying basis, revenue of $204.5m[1] and EBITDA of $0.2m[1]
- $64.3m net debt excluding AASB16, $107.3m including AASB16[2].
- Negative operating cashflow of $22.2m, driven by $5.8m working capital ($11.2m inventory), acquisition costs of $3.2m and tax of $9.6m (of which $8.3m we expect to receive in FY23 through loss carry back rules)
- Inventory levels up $19.1m (v FY21) due to safety stock requirements from factory relocation, acquisitions, cessation of investment buys and flow on effects of unwinding pandemic safety inventory within our customer held inventory.
- Revenue recognition accounting errors resulted in restatement of FY21and 1H22 results (see table below)
- Segment performance impacted by increased people and marketing expenses, cessation of investment buys and Clayton manufacturing transfer, but year-on-year growth in market share for Sukin and Mineral Fusion
- Strategic actions to manage costs and improve cash position include:
  - Stricter financial discipline (including ~$10m cost savings) and continued inventory reductions ($5m reduction since April 2022) as retail partners' inventory normalises
  - Strategic review of non-core assets progressing to reduce debt
  - Finance organisational restructure underway to improve financial processes
- Expanded debt facility of $12m with existing lender completed, covenant suspension until 31 January 2023. The Group is working towards a long-term debt restructure in H2 FY23.
- Board renewal progressing with appointment of Mr. Steven Fisher as Chairman of the Board and non-executive independent director. Ms. Fiona Bennett and Mr. Rod Walker to resign.
- FY23 guidance downgraded (see below).

[1] Excludes $6.2m Chemist Warehouse cost of equity-linked strategic partnership expense (FY21: $0.2m)
[2] Includes $5.6m (of $23.2m) capital raising proceeds

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Summary of Restatement of FY21 and 1H22

A$m	FY21 (restated)	**FY22**
Statutory Revenue	183.1	**198.3**
Underlying Revenue[3]	183.3	**204.5**
EBITDA	24.7	**(6.4)**
Underlying EBITDA[4]	24.9	**(0.2)**
Statutory NPAT	17.5	**(335.6)**
Profit Attributable	17.5	**(337.0)**
Underlying Profit Attributable[5]	13.1	**(2.7)**

FINANCIAL REVIEW

The Group recorded statutory revenue for FY22 of $198.3m, an 8.3% increase on the restated prior corresponding period ('pcp'). EBITDA was -$6.4m versus $24.7m in the restated pcp.

The decline in EBITDA was predominantly driven by the previously announced cessation of investment buys in June 2022, as well as an increase of 34% in BWX's operating expenses (to $112.2m in FY22). Operating expenses in increased marketing, people and acquired growth expenses have grown significantly ahead of sales growth. As a result, the Company has implemented stricter financial disciplines to bridge this gap, which is detailed in the Strategic Update below.

In commenting on the results above, BWX Group CEO and Managing Director, Mr Rory Gration, said:

"I apologise to all shareholders for the delay in releasing our Financial Year 2022 accounts and thank them for their patience as the Board and leadership team, with the assistance of our strategic advisors, continue to implement a comprehensive financial and operational re-set.

FY22 was a disappointing year for financial performance. As a business we are facing into the challenges, by stopping historical unsustainable sale practices, recalibrating our cost base, and committing BWX to return to a stronger, more focused and disciplined organisation with a consistent revenue and earnings profile."

SEGMENT REVIEW

The **Australia/International segment** reported FY22 revenue of $89.5m which includes 9-months contribution of Go-To in FY22 (acquired 30 September 2021). FY22 performance was impacted by the decision to forgo investment buys in the June quarter. In-market scan data was resilient,

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[3] Excludes $6.2m Chemist Warehouse cost of equity-linked strategic partnership expense (FY21: $0.2m)

[4] Excludes $6.2m Chemist Warehouse cost of equity-linked strategic partnership expense (FY21: $0.2m)

[5] Underlying NPAT excludes the impact of Impairment ($322.6m), equity linked partnership agreement ($6.2m) and other costs ($4.5m relating to non-controlling interest, investment in associates and acquisition related costs). For FY21 excludes acquisition related benefit ($4.6m after tax).

with Sukin growing market share for the 52 weeks to July of +12% (vs category +3%)[6].

The **USA segment** reported revenue of $76.8m or a decline of 4.1% vs the restated pcp. Mineral Fusion strengthened its revenue performance (+17.6% vs pcp) and grew market value share for the 52 weeks to July of +19% (vs category +10%).[7] However, the decision to transfer Andalou Natural's manufacturing in-house, affecting 80% of SKUs, necessitated a temporary reduction in promotional activity and resulted in a revenue decline of -19.3% vs pcp.

The **Digital segment**, comprising e-commerce platforms Nourished Life and Flora & Fauna, reported FY22 revenue of $32.0m, including a 12-month contribution from Flora & Fauna (acquired 1 July 2021). Both platforms were impacted by stock shortages and a reduction in promotional activity, temporary relocation disruption, and macro digital headwinds due to post-COVID online retail conditions. This led to a strategic review during 4Q22 with the focus on driving synergy realisation and optimising performance.

BWX brands increased total points of distribution globally by 21% YoY to +1.7m while also exiting non-core markets. This includes the onboarding of new retail partner JC Penney, a midscale US-based department store chain, for Mineral Fusion, Sukin and Andalou commencing in 2H22.

REVENUE RESTATEMENTS

The Company acknowledges that revenue recognition and associated accounting errors resulted in a restatement of FY21 and 1H22 comparatives. As a result, the Company has revised down the comparative results as follows:

- FY21 revenue down $11.0 m and EBITDA down $8.8m
- 1H22 revenue down $5.7m and EBITDA down $5.3m

Subsequently, the Company has executed an organisational restructure to improve its financial and reporting processes to improve its processes going forward.

NON-CASH IMPAIRMENT

BWX recognised a total non-cash impairment charge of $322.6m related to a reduction in the carrying value of intangible assets.

Together with FY22 underperformance, the post-COVID conditions in the retail environment, ongoing retail spending uncertainty and current trading conditions have led BWX to revise down its growth rate assumptions to more conservative levels within each segment.

The impairment is non-cash in nature and has no impact on debt facilities obligations. BWX is confident in the health of its core brands and the increased consumer demand for natural products.

BALANCE SHEET AND CASHFLOW

At 30 June 2022, the Group's net debt pre-AASB16 was $64.3m, which included $5.6m of proceeds from the $23.2m capital raising conducted in June 2022.

BWX reported a negative operating cashflow for FY22 of $22.2m, as a result of:

- $5.8m of working capital increases (driven by $11m of additional inventory)
- $3.2m in acquisition costs and $4.2m of interest expenses
- $9.6m in tax payments (of which $8.3m is expected to be claimed back in FY23 under loss

[6] IRI MarketEdge combined categories, grocery, pharmacy, 52 weeks MAT to 31 July 2022
[7] SPINS total US Natural channel (cosmetics & beauty products) (facial care) 52 week MAT to 10 July 2022

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carry back rules)

During FY22, inventories increased $19.1m to $65.3m mainly because of acquisitions ($8m) as well as stock build for the transition to the new Clayton manufacturing facility, the cessation of investment buys and the flow-on effect of retail partners unwinding their own inventory levels. The latter were elevated as a mitigation strategy against supply chain disruptions. Since its peak in April, inventory has been wound back by $5m in 4Q FY22, with a further $15m reduction targeted.

While the focus remains on strengthening the balance sheet, there will be no final dividend payout to shareholders in FY22.

STRATEGIC UPDATE

BWX has undertaken the following actions to ensure its cost base is at a more sustainable level and to support the deleveraging of the business to reduce its net debt:

- Group wide cost-saving initiatives of circa $10m per annum;
- continued inventory management (reduction of $5m since April 2022, further $15m targeted) as elevated inventory levels within customer base gradually normalise;
- organisational restructure to improve financial and reporting processes; and
- progression of strategic review of its non-core assets, with potential divestments considered, to allow focus on the Group's core higher-margin brands

The Board and management, with the assistance of external strategic advisors, continue to focus on a comprehensive financial and operational review to deliver a more streamlined, simplified business.

H1 FY23 TRADING & FY23 OUTLOOK

BWX is experiencing good in-market demand for the category in Australia and the USA and anticipates improved trading conditions in the second-half of FY23. This is because its wholesale and retail channels are expected to return to more normalised inventory levels and re-commence ordering patterns. As a result, BWX sales are anticipated to improve in H2 FY23.

However, in the first half of FY23, BWX expects to record an operating loss as customer inventory holdings continue to normalize and one-off abnormal restructuring and advisor costs impact. Furthermore, the elevated inventory is adversely affecting results in H1 FY23 as in-store promotional activity is continuing to be incurred without the benefit of associated revenues.

The lower than anticipated H1 FY23 revenues have reduced our anticipated reductions in working capital and been a key driver of the higher trading losses. The Group has continued to finalise its FY22 capital expenditure commitments during H1FY23. As a result, short term debt levels have increased significantly. BWX has increased its debt facility with its current lender to draw down an additional $12m of debt and are working towards a long-term debt restructure in H2 FY23. We expect net debt to peak at circa $95m as we complete our debt restructuring program.

Accordingly, BWX has revised its expectations for revenue and guidance in FY23. It now anticipates revenue in a range of $205m to $230m and full year EBITDA to be in a range of $25m to $30m excluding one-off significant items.

The Board and management remain committed to returning BWX to sustainable and profitable growth and restoring shareholder confidence.

ANNUAL GENERAL MEETING

BWX advises that its 2022 Annual General Meeting will now be held on 27 February 2023. Full details will be provided in the Notice of Meeting.

CONFERENCE CALL DETAILS

BWX is hosting a conference call and webcast commencing at 11am AEST today, which can be accessed via the links below.

Pre-registration link:

https://s1.c-conf.com/diamondpass/10026707-173oan.html

Participants can also access the webcast here:

https://webcast.openbriefing.com/9308/

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Authorised for release by the Board Directors of BWX Limited

Contacts:

Rory Gration
CEO & MD
+61 400 456 972

Birol Akdogan
CFO
+61 423 385 215

About BWX

BWX's purpose is creating Natural beauty and wellness for the world as a vertically integrated developer, manufacturer, distributor, and marketer of branded products in the Natural subcategory of the broader beauty and personal care market. The Group owns, manufactures, and distributes products predominantly under the Sukin, Andalou Naturals, and Mineral Fusion brands. BWX also sells a wide range of wellness products (own-brand, private-label and third-party) across multiple categories via the Flora & Fauna and Nourished Life e-commerce sites. Effective 30 September 2021, BWX acquired a majority stake in Go-To Skincare, an Australian skin care provider selling a range of simple, trusted and effective products for the masstige segment of the broader skin care category.