

21 February 2017

Comvita Announces Half Year Results

For the six month period ending 31 December 2016, Comvita (NZX:CVT) today announced a net loss after tax of \$7.1m on sales of \$57.7m. This result is in line with earlier guidance, and compares with a reported net profit after tax (NPAT) of \$3.0m on sales of \$91.1m for the six month period to 30 September 2015. The interim results for both periods are unaudited.

At an operating level, adjusting for changes in fair value of derivatives, the net loss after tax was \$4.4m. The difference between the reported NPAT and the operating NPAT is the revaluation of Comvita's options in SeaDragon (NZX:SEA) down by \$2.8m.

Financial results for the period six months to 31 December 2016 (six months to 30 September 2015)

	2016	2015
Sales	\$57.7m	\$91.1m
EBITDA*	(\$2.81m)	\$10.2m
EBITDA%	(5.0%)	11.0%
NPAT	(\$7.1m)	\$3.0m
Earnings per share (cents)	(17.18)	7.69
Dividends per share (cents)	2.0	6.0
ROCE**	(3.0%)	4.0%

* EBITDA: earnings before interest, tax, depreciation and amortisation.

** ROCE: return on capital employed.

Comvita Chairman Neil Craig says, "As we signalled in our market update of 23 January, informal channel sales to China through Asian resellers in Australia and New Zealand are down on expectations and the 2016 comparative period. The poor interim result is almost entirely a result of the drop in sales in these two markets. While this result is very disappointing, we are very pleased with the mitigating actions taken by the management team, including cost reduction initiatives, with a focus on productivity and ongoing innovation and product development. The changes made to the business this year will set us up well for further growth in earnings beyond the excellent 2016 result when the sales environment improves. The board believes the company is still well placed to meet its long term strategic objectives."

Dividend

"On 23 January 2017, we advised that we anticipated our 2017 after tax operating earnings would be in the range of \$5-7m. In keeping with our current dividend payment policy of 40-45% of annual after tax operating profits, we will pay a fully imputed interim dividend of two cents per share on 21 March 2017 for those shares registered 14 March 2017."

Derma Sciences, Inc. Post Half Year Event

Mr. Craig said, "We believe the Derma Science (Nasdaq:DSCI) transaction is an exceptional one for our shareholders. We sold the Medihoney brand for NZ \$19m, however we have retained the worldwide rights to use the brand in over the counter (OTC) channels. We have also entered into a new manufacturing agreement that enables us to lower our costs for products in our range that require Medical Device certifications, and develop a Medihoney branded Manuka honey band-aid. The agreement also provides for Comvita to supply bulk, medical grade Manuka honey on a commercial basis over the long term."

US company Integra Life Sciences (Nasdaq:IART) has made an offer to buy Derma Sciences at US\$7 per share which values our stake at approximately NZ\$11m. The total value of the Medihoney sale and the share sale is approximately NZ\$30m immediately, with the prospect of a further US\$5m over several years, provided certain Medihoney sales targets are met by Integra.”

“With the share placement made to China Resources on 26 October 2016 of \$21m and the recent Derma Sciences transaction, Comvita has a strong balance sheet. As communicated already, these funds will be applied to debt reduction and then for funding strategic initiatives and potential acquisitions currently under consideration.”

CEO Commentary

Comvita CEO Scott Coulter said, “The business operating conditions in our two biggest markets (Australia and New Zealand) have been extremely tough over the first six months and account for most of the shortfall in revenue for the period. We are working through a painful period of channel rebalancing from informal to more formal paths to China. This adjustment period may continue for a few more months and the informal channel business in Australasia remains the largest risk to our short term projections. Longer term Comvita is well positioned to cement our competitive advantage through the strategic partnerships we have set up at both the supply end of its business and inside China itself.”

Our China Joint Venture is on track and expected to start from 1 July 2017. This will improve both our profitability from China based sales and our visibility into this market. Our strategic partnership with China Resources is progressing well and we believe this relationship will enable our brand to expand more broadly into Chinese based distribution of high quality, premium, healthy food products outside our traditional bee-products base.

As we informed the market on 23 January 2017, the honey season is likely to be significantly impacted by prolonged and unfavourable weather conditions. This was an exceptionally poor honey harvest across the country. Harvest risk is recognised as a characteristic of beekeeping and this is going to happen from time to time, although the extent this event impacted most of our Apiaries and subsequently our profitability in the second half ending 30 June, was highly unusual.

We will not have full visibility on our 2017 honey harvest until April/May 2017. As the honey season progresses down the country from North to South, some hives are still in the field collecting honey, which means estimating the harvest is extremely difficult. Since our last announcement, the honey season has progressed another month with little improvement in the weather conditions. As we have mentioned previously, assuming a return to normal weather patterns next year, the operating profit impact of this poor honey harvest will be isolated to this current financial year.

Management have used the opportunity over the past six months to significantly improve our underlying operating business. The company has reduced its operating cost base by \$6.5m in the first half, and we expect full year savings of \$10m compared to the prior year. At the same time we have developed new capability in innovation, as we build towards achieving our strategic goals of value additions to our existing honey business and diversification of the product range. We now have a dedicated innovation team within the business with a cross functional skill base including food formulating, topical products formulation, regulatory affairs, patent management, marketing and project management expertise.

The Derma Sciences transaction enabled us to reduce debt substantially, from \$82m at 31 December 2016 to \$53m by 31 March 2017, an amount significantly lower than our total inventory position at \$97m.

Innovation

It is important to note while we are vigorously pursuing a diversification strategy, we are not placing any less emphasis on our core bee products business, and in particular Manuka honey. Our inventory is in a very strong position and we are opening new channels and markets for Manuka honey, as well as launching a number of new, value-added initiatives with products containing Manuka Honey. We have launched a Manuka honey beverage range, a range of sugar free lozenges containing Manuka honey and will shortly launch therapeutic versions of pure Manuka honey lozenges.

From Derma Sciences we expect to launch a range of Manuka honey wound dressing products by mid-2017. The sale of the Medihoney brand to Derma Sciences still allows Comvita to have exclusive world-wide use of the Medihoney brand in the OTC market. The Medihoney therapeutic skincare range, targeted at customers who have skin prone to Eczema, is growing strongly in Australian pharmacy channels, our largest Medihoney market at 37% on a moving annual total (MAT) basis.

Fresh Olive Leaf Extract (OLE) continues to go from strength to strength in Australia, our largest OLE market, and we have grown OLE sales in this market by 24% on an MAT basis, driven by new innovation in high strength capsules. Our focus over the next few months will be driving OLE sales and innovation in markets outside Australia.

Markets

Japan is now one of our faster growing markets with sales increasing by 20% for the six months ended 31 December 2016. Sales to our distributor in China have impacted our Asian sales, hence the reported drop in sales over this period from \$30m to \$20m. This change in sales is due to timing of shipments and seasonal differences in the reporting periods. While sales have decreased over this period to Asia, the profit contribution made on these sales is virtually the same. This indicates a lift in profitability in our Asian business.

Our sales data demonstrates Comvita's underlying growth in China continues. Over the last quarter of 2016, an important period for seasonal reasons, as this period includes the onset of winter as well as covering a number of important sales events like Singles Day, our China distributor sales grew at 15% compared with the same quarter in 2015. There have been a number of marketing initiatives, including live streaming from our Paengaroa Head Office to 300,000 consumers on T-Mall, which will position our brand well for future growth. It is also important to note that while our online business inside China continues to grow, we have a good base of offline retail locations to provide consumers with the ability to connect and engage directly with our brand.

Sales in the UK are up by 10.5% on a similar currency basis over the prior six month period. We have several new listings in pharmacy with Boots and with Holland & Barrett, the UK's largest health food chain, which will help us drive second half growth. The USA is growing strongly, particularly with e-commerce sales, and we expect to move into a profitable position in this market within the next 12 months. We expect the UK, Korea and Japan to all grow this year on a same currency basis, although the Brexit impact on the UK currency will have a dampening effect in NZ dollar terms.

Overall, we expect our second half year sales to be up significantly on our first half year due to continued growth in the non-Chinese markets, improvement in Australasian sales, the effect of new sales initiatives in new and existing markets and an increasing contribution to sales from our innovation pipeline.

Please refer to full investor presentation which should be read in conjunction with this announcement.

<http://www.comvita.co.nz/store/comvitanz/market-announcements>

Ends.

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Background information

About Comvita (www.comvita.co.nz)

Comvita (NZX:CVT) is a global natural health company committed to the development of innovative products, backed by ongoing investment in scientific research.