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6 May 2019

## Comvita Update on 2018-2019 Honey Harvest and Market Forecast

In our 10 April 2019 Announcement, we advised that we would only be able to provide the final result of the 2018-2019 honey harvest at the end of April when testing of the quality of the honey was complete. The harvest outturn and its effect on our expected Annual Result, is detailed below.

This is the third season in a row of a poor harvest for the industry and for Comvita. Even though production per hive for Comvita was higher than the previous year, it was a poor production season overall. This has been put down to poor weather patterns but we also believe that there is an impact in most regions, but notably Northland and East Coast, of over-crowding of Manuka sites with hives by competing beekeepers. Although honey production post-Christmas met our budgeted expectations from a production per hive perspective, the lower than anticipated grade of honey achieved across our entire apiary operation, together with the large drop in value of the Multi-flora Manuka 'by-catch' (a direct result of the MPI Manuka honey definition changes), we now anticipate a loss of operating earnings in the apiary business after tax of approximately \$6.0m. Our early indications as per our 21 February 2019 update, was for the 2nd Half to make up for the very poor pre-Christmas period, which clearly did not happen.

This is extremely disappointing for Comvita considering we have been consciously moving our apiary business to a more variable cost model. Obviously, we have much more work to do. We are endeavouring to change the direction of this business unit before the next season. This will involve a review of our apiary business operations and under-performing assets, withdrawing from sites that have become non-viable due to overcrowding, and moving these hives to where there are large tracts of Manuka, including our own plantations, which will produce material quantities of honey over the next two to three years.

Our Manuka plantation programme commenced three years ago and plantings are being established at the rate of 2000 ha per annum. We only plant Manuka varieties that are uniquely bred to suit the locations they are planted in and exclusive to Comvita from its long running plant breeding programme. As a Board, we are actively pursuing options to speed up the transition period to greater dependence on our plantation derived Manuka honey.

### Brand Business

The financial impact of the poor honey harvest is clouding the improvements we have made in the quality of sales and momentum of sales. Over the last 12 months we have been moving to have much greater control over sales channels and in-market pricing. This, we have expressed before as:

- Price harmonisation between channels and market.
- Supplying key cross-border e-commerce platforms directly.
- Building e-commerce and marketing capability in all channels into China.

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Together with the acquisition of 100% of our China Joint Venture, which was announced on 10 April 2019, and now having secured in April a direct trading relationship with the last of the major Cross Border e-Commerce (CBEC) platforms into China, we are now achieving consistent and growing monthly revenue at improved margins. In retrospect, while we have been implementing these strategies, we have underestimated how difficult in time and resource commitment it is to achieve pricing alignment and build direct contractual relationships with all the major e-commerce channels into China. Sales over the last 12 months have been impacted while in negotiations, but are now trending positively quarter by quarter. This means that while the Daigou channels out of New Zealand and Australia remain important for Comvita, the direct formal relationships we have now established with the major CBEC channels and 100% ownership of our China distribution arm, reduces this dependence significantly.

For the final Quarter for this financial year, we expect to achieve an operating profit after tax of circa \$4m in our branded business. For the 2019-2020 year, we will have the benefit of the full year impact of access to all key channels into China, our 100% owned China distribution business and strong sales growth in the USA.

This significant achievement in strategic re-alignment, won't be obvious in our financial result for the year ending 30 June 2019, which we now expect to be a loss in the order of \$6m net profit after tax.

To ensure against seasonal honey volatility such as that experienced over the last three years, our approach is to maintain large inventories (indicatively 12 months of market demand) of raw honey. This valuable inventory is funded entirely by Bank borrowings. Our operating cash flow for the year is positive and we anticipate total debt at year end 30 June, will be at similar levels to 12 months earlier.

Ends.

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Background information

About Comvita ([www.comvita.co.nz](http://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.