



25 February 2021

Turnaround on track at Comvita

Headlines

- Reported NPAT \$3.5M vs. (\$13M) in PCP
- Reported EBITDA* \$10.6M vs. (\$8.8M) in PCP, an improvement of \$19.4M
- Reported revenue \$98.9M, +5.5% vs. PCP
- Double-digit top and bottom-line growth in focus growth markets
- Net debt reduction** \$1.6M, Inventory reduction** \$14M, Operating cash inflow \$9.4M
- Gross Profit +1080 bps, +28.3% vs. PCP
- Marketing Investment +\$2.1M or +25%
- \$15M business transformation plan on track:
 - Additional \$10M transformation phase two launched
- 37% reduction in total recordable injury frequency rate (TRIFR)
- Full year guidance maintained; dividends expected to resume at full year

Financial results for the six months ended \$M	31 December 2020 Unaudited	31 December 2019 Unaudited
Revenue	98.9	93.9
Gross Profit	48.5	35.8
EBITDA*	10.6	(8.8)
Net Profit/(Loss) after tax	3.5	(13.0)
Net debt	13.9	93.2
Inventory	98.5	116.1

*EBITDA: Earnings before interest, tax, depreciation, and amortisation

** Performance vs. 30 June 2020

Comvita (NZX:CVT) today announced that for the six-month period ending 31 December 2020, it returned to profitability with net profit after tax (NPAT) reported as \$3.5M versus a \$12.97M loss in the prior corresponding period (PCP).

Reported EBITDA was \$10.6M versus a loss of \$8.8M in the PCP. Revenue increased to \$98.9M, +5.5% versus PCP, or 6.7% in constant currency, with strong growth seen in focus growth markets and its core Mānuka category. Marketing investment designed to support Comvita’s long-term growth ambition increased by 25% on the PCP as Comvita activated plans to drive brand affinity and tell its founding story to discerning consumers around the world.

Commenting on the performance, Comvita Chairman, Brett Hewlett, said “We’re pleased with the progress the team has delivered over the last year. The Board and management have continued to transform the business at pace looking to ensure we deliver the performance that all Comvita stakeholders should expect. The result shared today shows that the ongoing transformation is multi-dimensional with revenue, margin, and earnings improvements, along with good financial and capital disciplines evidenced in net debt reduction, inventory reduction and cash generation. In line with our previous disclosure, and subject

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to delivering full year guidance, the Board reconfirms its commitment to resume dividend payments at the end of this financial year.”

Group CEO, David Banfield, says “The team and I are encouraged by the results that we share today. We remain totally focused on delivering our new long-term sustainable business model that will enable us to simplify and streamline the business further, invest in telling our unique brand story to discerning consumers around the world, and connect with our fantastic in-market teams to deliver the most compelling consumer proposition in market. We look forward to sharing further progress over the course of the second half of the year.”

Focus growth markets performing strongly

Comvita’s focus growth markets, China and North America, showed strong performance in this period with both markets delivering double-digit top and bottom-line growth.

China is the world’s biggest honey market valued at \$1.8Bn, Comvita’s long-term goal is to target market growth (growing the total addressable market) and market share growth. Revenue in China grew by 20% and net contribution by 28% versus the PCP, as Comvita invested in long-term brand building activity. Comvita also significantly strengthened leadership capability at its in-China subsidiary funded by efficiencies across the Group with a focus on delivering strong foundations for long-term profitable growth.

Comvita North America posted another strong result with revenue increased by 38% and net contribution by 222% (though there was a delay in timing of some marketing activities to H2). Retail distribution increased by 170% over the PCP, which is hugely encouraging, and digital sales increased by 87%, now representing 41% of H1 sales. Comvita is the fastest growing Mānuka honey brand in North America.

Unique business model shows encouraging signs

Comvita has a unique ‘End to End’ business model with around 350 people employed in markets outside of New Zealand to ensure that Comvita is better connected to customers and consumers in market, and is able to adapt at speed to meet local market changes and needs. A particular strength of this model has been evidenced in Mainland China and Asia where Comvita has been able to offset the impact of the challenges in the Daigou market in Australia and New Zealand. This model also enables the business to continue to perform strongly even with travel and tourism being so restricted.

Headwinds in Australia and New Zealand

The business in Australia and New Zealand has traditionally been focused on tourism, travel, Daigou, cross-border, and retail serving Asian consumers. This has meant a narrow distribution focus and lack of digital activity and has limited reach outside this core consumer group. This has resulted in a lack of distribution and brand awareness of our compelling story across the broader target demographic in Australia and New Zealand and has meant that COVID disruptions have had a material impact on revenue and earnings (particularly in Australia).

Revenue in Australia fell by \$5.5M versus the PCP due to the challenges in these channels. As previously advised Comvita sees success in its home markets as a prerequisite for long-term success. Comvita has launched a review of the optimum structure for its Asian health Daigou business to ensure consumer communication, experience and brand proposition is enhanced.

The new Immersive Comvita Wellness Lab experience in Auckland will open in March 2021 as Comvita shares its amazing founding story and the story of the hive with New Zealand consumers.

\$15M Transformation on track

Comvita has made good progress on its \$15M business transformation programme announced last year, with the benefits being reflected in these Interim results. Overall Comvita has delivered a strong improvement in gross profit of 1080 bps or +28.3% vs. PCP, radically flattened the organisation structure and simplified the business significantly (legal entities and JV's). Its previously reported goal to reduce the total SKU count by 30% is on track to be delivered, freeing up cash and bringing more focus in the process. It is also on track to deliver underlying cost reductions of \$5M.

New additional \$10M transformation phase two announced

Comvita aims to be the highest quality, lowest cost producer of Mānuka honey while also having a relentless focus on flattening the organisational structure and putting the consumer, and consumer experience, at the heart of their thinking. In order to ensure that the business model enables it to invest in telling its long-term story, to connect with consumers and deliver returns to shareholders in-line with expectation, Comvita has today launched an additional three-year \$10M transformation phase two. This programme is designed to deliver an additional 400-450 bps improvement in margin by June 2024 and enable it to accelerate brand investment and deliver on its mid-single digit revenue growth expectations. Comvita will invest an additional \$1.5M p.a. to deliver this phase two transformation.

Good progress on digital transformation

Comvita has set out its aim to grow digital sales to 50% of total group sales by 2025. Good progress has been made with total digital sales accounting for 32% of Group sales in this period. Comvita under index digital sales in all markets that have been slow to embrace the digital channel opportunity (NZ, AU, UK and HK). It is notable that all these markets share the same narrow distribution model and have underperformed during this period. Action is already underway to address this with the recent announcement of the partnership with The Hut Group.

Net debt, inventory, and cash improvements

Comvita continued its strategy to streamline the business and deliver on its low debt, lower inventory, and cash generative plan. During this period net debt decreased by \$1.6M, inventory by \$14M, and \$9.4M in operating cash was generated.

Full year guidance maintained

Comvita maintained full year guidance of an EBITDA range of NZD \$20-\$23M in the period ending 30 June 2021. Comvita also reaffirmed its intention to resume dividend payments following delivery of its full year guidance.

Looking forward - Building a better business

Good progress has been made on stabilising and transforming the business in line with Comvita's three-part plan to:

- 1: Stabilise performance
- 2: Transform the organisation
- 3: Build long term resilience and growth

Comvita is focused on putting in place long-term scalable foundations and processes that enable the business to excel in coming years. "We're pleased with progress so far but equally recognise the additional work ahead as we 'Stride' into this next phase." added Banfield.

Comvita remains committed to delivering mid-single-digit revenue growth in constant currency, a 20% EBITDA margin by 2025, and a double-digit five-year EPS CAGR. In addition, Comvita reiterated its aim to be carbon neutral by 2025 and carbon positive by 2030.

Banfield, concludes “This is a special chapter in Comvita’s rich history as we turn 50 years of age in 2024/5. The team and I are totally committed to delivering long-term profitable growth and ensuring that we put in place the foundations at Comvita to thrive for another 50 years. We continue our transformation of Comvita and remain committed to pay back the support shown by the Board, the extended Comvita whānau and all our stakeholders.”

David Banfield
CEO

Brett Hewlett
Chair

ENDS.

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Background information

About Comvita (www.comvita.co.nz) Comvita (NZX:CVT) was founded in 1974 and is the pioneer and global market leader of the Mānuka honey category. Comvita is committed to the long-term development of Mānuka and Bee products backed by unrivalled scientific knowhow. Comvita recently announced its sponsorship of the NZ pavilion at the World Expo in Dubai focusing on Kaitiakitanga (guardianship and protection of the planet).