23 February 2023

Record First Half Earnings at Comvita

Headlines

- Record operating profit $11.6M +$4.4M and +61% vs PCP
- Record EBITDA $13.4M +$1.3M and +11% vs PCP
- Record NPAT $4.2M +19% vs PCP
- Record revenue $112M +7% vs PCP
- Record GP $69.4M +17% vs PCP
- Record investment in brand of $15.5M +$2.2M vs PCP
- Performance delivered despite negative FX $3.5M and interest charge due to elevated debt +$1M vs PCP and Covid related disruption to retail sales in China
- Transformation investment $2.2M +$1.5M vs PCP (due to finish end FY24)
- **Strong Performance in focus markets and Channels:**
    - North America revenue +20% and net contribution +40%
    - Greater China revenue +9% and net contribution +15%
    - Digital (D2C and marketplace) +15% now 38.8% of sales +580bps
- Gaining market share in key markets

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED $M	31 DECEMBER 2022 UNAUDITED	31 DECEMBER 2021 UNAUDITED	VARIANCE %
Revenue	112.1	104.9	+6.8%
Gross profit	69.4	59.4	+16.8%
Marketing investment	15.5	13.3	+16.8%
Operating profit	11.6	7.2	+60.9%
EBITDA*	13.4	12.1	+11.1%
Normalised EBITDA – after ERP	14.0	12.1	+15.9%
Net profit after tax	4.2	3.5	+19.4%
Net debt	63.3	26.3	+$37M
Fully imputed dividend	2.5 cps	2.5 cps	

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

Comvita (NZX:CVT) today announced record earnings (operating profit, EBITDA, NPAT) and record revenue for the six-month period ending 31 December 2022. **Operating profit** increased by **60.9% to $11.6M**, **EBITDA** improved to $13.4M **+11.1% vs PCP**, normalised EBITDA after ERP **+16% vs PCP** and **NPAT** increased to $4.2M **+19.4% vs PCP** as its 2025 FOCUS strategy continued to deliver earnings improvement. Revenue increased by 6.8% to $112.1M, despite material negative Covid impacts in Mainland China, Hong Kong SAR and Asian Health channel in Australia and New Zealand (offline direct sales were down 5% for the half in Mainland China despite December being +46%). Net debt increased by $37M on the PCP, primarily due to increasing inventory to offset global supply chain disruption and also due to the timing of debtor payments.

Cyclone Gabrielle

Comvita Chairman, Brett Hewlett, said "Our thoughts are with everyone across New Zealand impacted by Cyclone Gabrielle and especially our team in the Hawkes Bay region. Earlier this week our CEO and Chief Operations Officer (COO) visited our team and facility in Hawkes Bay to assess the impact of Cyclone Gabrielle firsthand. We are pleased to report that all of the team are safe and well and that we have been able to put in place accommodation and support for our team and their families. Our priority is ensuring the ongoing safety of our team and putting in place immediate and specific support for the Hawkes Bay team, as a number have been evacuated from their homes after suffering from significant flooding. Our own facility has suffered extensive damage and our working hypothesis is that the site will be written off in its entirety. Naturally, we have insurance cover in place and are working closely with our insurers to get an assessment completed so that we can start the process of cleaning up our site. From an operational perspective as previously advised, we have moved extraction to one of our other facilities and apart from the significant disruption in Hawkes Bay, we do not expect any material impact to our daily operations."

Commenting on the performance, Brett continued "We are delighted to announce record revenue, gross profit and earnings at Comvita against a very strong PCP and despite continuing material Covid related headwinds. Once again, our FOCUS business model, control of costs, investment in brand and excellent execution from the team has enabled us to deliver ahead of forecasts. We remain confident about delivery of our 2025 plan and believe that the resilience we are showing in results despite matters outside our direct control is testament to the ongoing transformation of the business. The result shared today gives more evidence that we can deliver revenue, margin and earnings growth while investing in long term brand and business building activity. Net debt increased during this period primarily due to the increase in inventory (timing related) and the timings of debtor payments in this half. The Directors and I are pleased to declare a fully imputed dividend of 2.5 cps in this interim period, highlighting our confidence in the momentum we see within the business."

Group CEO, David Banfield, says "This is now the sixth consecutive reporting period where we have delivered double-digit earnings growth in line or ahead of guidance, we see good momentum in the business, and this has been delivered despite the Covid related disruption in retail for most of the half in Mainland China. I would like to recognise the resilience and performance of the whole team around the world during such tough times, we are proving our ability to pivot to meet changing demand and also deliver great service to our partners.

I would particularly like to recognise the teams in Mainland China and Hong Kong SAR for their commitment and performance in very trying circumstances. I will be visiting them in April for the first time in over three years with our Regional CEO, Andy Chen, and can't wait to thank them in person.

We do recognise that inventory and net debt are above our desired long-term level, we also recognise that we must prove our ability to deliver positive operating cashflow all year round and as such have finalised stage four of our supply optimisation program. This program is designed to help us align supply to consumer demand in market and, in the process, remove seasonality from our cashflows.

At this time, we retain guidance of double-digit earnings growth in FY23 but note that this will be after normalising the costs related to upgrading our ERP system – estimated at $3M (unable to capitalise due to changed accounting guidance). We are still forecasting inventory to be in line with PCP by the end of FY23 and remain confident that with our optimised supply model we are on track to deliver inventory of c$85M by 2025. This new supply model will also enable us to consistently deliver positive operating cashflows going forward. Finally, I want to talk briefly about our science program, we invest more in science than the rest of the industry combined and are delighted with the progress that we are making and look forward to sharing details before long. We are also in the middle of our latest clinical trial and expect to share results by the end of the calendar year. Our investment has enabled us to register nearly 50 patents which is the lifeblood for future innovation and further differentiation of Comvita vs competitors. Our focus now returns to delivery of our FY23 plan and to start the planning for FY24" concluded Banfield.

Solid revenue growth despite material negative Covid impacts

Focus growth markets continue to perform strongly

Revenue in Greater China increased by just under 9% and earnings increased by 15% vs PCP despite the massive headwinds caused by the pandemic in the traditional retail sector. Comvita are extremely encouraged that sales from retail in China increased by 46% between reopening on the 5 December and the end of December. Comvita are delighted to report market share growth in mainland China recording an increase in share of 500bps as their investment in brand and NPD continued to deliver results.

Comvita North America posted another strong result with revenue increasing by 20% and net contribution by 40% (although there was a delay in timing of some marketing activities to H2). Comvita remains the fastest growing Mānuka honey brand in North America and is achieving market share growth in a category where the fundamentals are strong and significant opportunity exists to grow extensively in the world's second biggest honey market.

Australia and New Zealand (ANZ) sales flat, domestic sales offset Asian Health headwinds

Comvita were also delighted with the progress they are making in ANZ. Revenue was flat vs PCP but net contribution increased by 24% to 35% of sales (+700bps). Domestic sales were very strong with record performance in Australia enabling them to offset the impact of border restrictions related to Covid on the Asian Health segment. They are encouraged that partners in the Asian Health community recognise their brand strength in Greater China and are actively choosing to focus on Comvita and invest in their mutual business and are committed to help Comvita drive market share even higher.

On track for e-commerce to be 50% of total revenue by 2025

E-commerce share of total revenue increased by 15% to 38.8% of total sales in this half, +580bps vs PCP. For every 10% increase in digital share of total Comvita revenue, group GP increases by 1 percentage point (100bps). Direct to consumer (D2C) sales through Comvita's owned sites increased by 23% vs PCP, at accretive gross margins as this long-term strategy again showed positive momentum. Comvita invested $6.8M in sharing its amazing founding story in this channel and are delighted to report that existing customer average order value increased by nearly 10% and its average net promoter score was 9.2. Comvita remains on track for e-commerce sales to be 50% of total group sales in 2025.

Long-term investment in brand building continues

In line with its 60:15:20, 2025 business plan Comvita invested $15.5M in Its marketing in half one, an increase of $2.2M or 17% to be 13.8% of revenue. Comvita's investment in its brand continues to be central to its ambition to share the healing power of Mānuka honey with discerning consumers around the world. With current global household penetration (HHP) at less than 1% Comvita sees significant opportunity to materially increase HHP to be closer to its highest current HHP in any market of over 3%. Comvita was delighted to attend the 2022 CIIE show in Shanghai where its booth attracted significant attention, in addition Comvita featured on the front page of China Daily business section recognising its long-term commitment and strong reputation in China.

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Comvita commits to far reaching ESG goals
Comvita has set out its long-term aim to be recognised as a global leader in ESG related performance including becoming carbon neutral by 2025 and net positive by 2030. Its published Harmony Plan sets out its commitment on climate action, social impact, bee welfare and supporting biodiversity. Comvita continued to invest in ESG related activity in line with its purpose and confirmed its commitment to produce science based targets for long term greenhouse gas reduction. Comvita was encouraged to be ranked 16 for ESG in a recent investment bank survey of all NZX companies. Carbon sequestration from its Mānuka forests increased by 54% vs PCP.

Harvest Update
This year's extreme weather has had an impact on Comvita's apiary operations with it already forecasting a below average harvest (breakeven model based off 400 tonnes low harvest model). Given this forecast, the expectation is that this will result in zero contribution from apiary to group profits in FY23 (FY22 c$3M). Final details will only be known in April.

Foreign Exchange
Comvita delivered their reported EBITDA growth despite the headwind of $3.5M in foreign exchange losses, both realised and unrealised. These result from lower exchange rates, primarily with the USD and CNY, than forward exchange contracted rates that they had in place in this period.

Internal digital transformation
Comvita's internal digital transformation program is now focused on updating their ERP system, redefining internal inefficient processes and refreshing master data. This project will run until June 2024 and is designed to give up to date scalable internal systems and processes and significantly increase reporting capability. Due to changes in accounting guidance (SaaS means the assets aren't owned) these costs will be expensed until June 2024. In line with market practice, these will be normalised in the results.

Net debt, inventory, and operating cashflow
Net debt increased to $63.3M primarily as a result of increased inventory and an increase in debtors due to timing of revenues in H1 vs PCP. Inventory has now peaked, and Comvita retain forecast to deliver inventories in line with PCP at the full year end. This elevated inventory was a considered decision to enable Comvita to respond immediately to changes in market demand. Stage four of the supply optimisation work is now completed – this programme significantly reduces Comvita's exposure to contracted demand and enables the balance supply and demand. This new program is central to Comvita's confidence that they will be able to deliver material decreases in inventory over the next two years in line with their strategy for inventory to be c$85M in 2025. The supply optimisation program is also designed to remove inventory related seasonality from their cashflows, enabling year-round positive operating cashflow. This higher net debt position during the period resulted in increased interest expense of $1.0M vs PCP, notwithstanding this, Comvita still delivered an NPAT ahead +19% vs PCP.

Full year guidance maintained, interim dividend declared
Comvita maintains full year guidance of double-digit EBITDA growth at this time for the period ending 30 June 2023, though advised that this will be after normalising for ERP costs previously mentioned, estimate of $3M. This is a result of its inability to capitalise its system transformation work due to the change in accounting guidance (SaaS).

The recent weather events have had a material impact on honey harvests, while we do not know the result of the harvest in terms of quality it is already known that this will be a low volume harvest, Comvita are currently forecasting to deliver zero contribution to group earnings from its apiary division, though the full result will not be known until April. Comvita announced a fully imputed interim dividend of 2.5 cps reflecting confidence in its ability to deliver to its guidance despite ongoing Covid and weather disruptions.

Looking forward – exciting future ahead

Comvita's 2025 plan is designed to deliver a business model that achieves a GP of at least 60%, delivers long term investment in its brand by investing 15% in brand building activity and deliver a 20% EBITDA margin, Comvita again re-iterated that it was on track to deliver $50M earnings in 2025. This model, underpinned by its aim to be carbon neutral by 2025 and a global leader in ESG is designed to set Comvita up for long term profitable growth. It's underpinned by its focus on continued delivery of its three-part plan to;

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

Comvita's talent backed skincare proposition is due to launch late in 2023 / early 2024 and is also showing some exciting potential. Talent and launch details will be shared as soon as finalised but expected to be before June 2023.

Finally, Comvita highlighted that the total honey category (TAM) is forecast to grow from its current $9BN USD to $15BN USD by 2031 – an increase of around 67% and that category dynamics favour a high quality premium lifestyle brand like Comvita.

"I am really pleased with the progress we are making on multiple fronts across the group including our continuing focus on China, North America and e-commerce (digital) excellence. We recognise we still have some way to go to deliver the true potential of Comvita but are confident we are on the right path. Our record interim performance evidences the momentum and resilience that we see in the business. We know that we have to stay focused on continuing to deliver to forecasts and proving that we have the plan and capability in the team to consistently deliver strong performance. For full year 2023 we are forecasting some softening of GP to high 50%'s, this will continue in FY24 before returning to mid-60 %'s in FY25." added Banfield.

Banfield, concludes "I am so proud of the team and the continued progress that we are making together. We have had to work really hard to get to this point and are absolutely committed to creating our own legacy at Comvita to build on the great work done before our time. Our progressive agenda captured in our Harmony Plan and our constitution recognises our intention to operate in the best interest of all stakeholders. We 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
Comvita (NZX:CVT) was founded in 1974, with a purpose to heal and protect the world through the natural power of the hive. With a team of 550+ people globally, united with more than 1.6 billion bees, we are the global market leader in Mānuka honey and bee consumer goods. Seeking to understand, but never to alter, we test and verify all our bee-product ingredients are of the highest quality in our own government-recognised and accredited laboratory. We are growing industry scientific knowledge on bee welfare, Mānuka trees and the many benefits of Mānuka honey and propolis. We have pledged to be carbon neutral by 2025 and carbon positive by 2030, and we are planting 1-2million native trees every year. Comvita has operations in Australia, China, North America, South East Asia, and Europe – and of course, Aotearoa New Zealand, where our bees are thriving.