

23 August 2016

## Comvita announces 15 month result, delivering on guidance

For the 15 month period ending 30 June 2016, Comvita (NZX:CVT) today announced a Net Profit after Tax (NPAT) of \$18.5m on sales of \$231m. This compares to the unaudited result of a NPAT of \$17.2m on sales of \$202m reported to the market in the 12 month period to March 2016.

Comvita Chairman Neil Craig says, “It is important to note that as advised on 10 May 2016, we expected the 15 month operating result to 30 June 2016 to be similar to the result reported for the 12 months to 31 March 2016 of \$17.2m. After adjusting our reported and audited NPAT to 30 June 2016 of \$18.5m for favourable non-operating changes in fair value of assets, primarily Derma Sciences and SeaDragon, it is pleasing to have delivered \$17.1m against this guidance.”

“We continue to be focused on growing earnings per share from the solid business base that has been established over the last ten years. Our EBITDA margin for the 15 month period was 17.1% and our Return on Capital Employed (ROCE) was 14.3% which represents good performance growth compared to the prior year of 15% and 12% respectively.”

Financial Results for the period	15 months to 30 June 2016	12 months to 31 March 2015
Sales	\$231m	\$153m
EBITDA*	\$39.4m	\$23.0m
EBITDA%	17.1%	15.0%
NPAT	\$18.5m	\$10.2m
Earnings per share (cents)	46.91	29.88
Dividends per share (cents)	18.00	13.00
ROCE	14.3%	12.0%

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

### Dividend

Comvita paid a fully imputed second interim dividend of 10 cents per share on 24 June 2016, for those shares registered on 17 June 2016. This brought the total interim dividend for the 12 month period to 16 cents per share (compared with 13 cents per share in 2015). With the change in balance date to 30 June, a final dividend of 2 cents per share will be paid on 23 September 2016, bringing the total payment to 18 cents per share for those shares registered on 16 September 2016.

The payout ratio for the 15 month period is approximately 42% of operating profit. This is lower than our previously adopted 50% of after tax operating profits. With the growth opportunities being presented to Comvita on an ongoing basis, the Board has decided to change the dividend payment policy to 40-45% of after tax operating profits.

### Markets

Comvita CEO Scott Coulter says, “Sales of \$130 million were recorded in Australia and New Zealand over the last 15 months, driven by the re-export market to China. Australia is now our largest market with sales of \$74m over the last 15 months and has contributed significantly to our result.

China sales grew strongly and in particular sales through the various e-commerce platforms and the 400 branded retail outlets operated by our dedicated Chinese distribution partner. Comvita supplies all of the major E-commerce platforms in China. In Tao Bao, the Chinese consumer to consumer site, the Comvita brand is now the

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number one honey brand in China, based on data which also includes local brands. In T-Mall, which is the business to consumer site, we are now the number two brand. China is the largest honey producer in the world so this is a very positive position for our brand. Comvita sales have grown 33% overall across the entire Chinese E-commerce market to the end of June 2016. We estimate over 60% of our total sales globally to end up in the hands of a Chinese consumer.

A program of re-invigorating the look and feel of Comvita retail stores in Hong Kong is currently underway, in line with our goal of improving our retailing performance in that market. We have appointed a new management team in Hong Kong with substantial retailing expertise and have been making steady progress in a market that has been 'flat' for the last two years - sales in Hong Kong totalled \$26 million in the last 15 months.

Premium Comvita sales counters are also present in the key department stores in Korea and Japan. The consumer's appetite for TV home shopping has grown significantly in Japan and Korea and we have been successful in tapping into this opportunity in the last 15 months. Comvita closed its Taiwan sales subsidiary during the year as it was not meeting growth objectives. This market is now being serviced directly from the Hong Kong office.

In our Western markets, traditional pharmacy and health food retailing remains the predominant sales channel for Comvita. The fresh Olive Leaf Extract range and Medihoney ranges used for Eczema prone skin, have recorded solid growth in the key Australian pharmacy channels. Despite difficult trading conditions in Western Europe, the Comvita range continues to perform well in the UK. Our USA business is expected to break even in FY17 after making good sales growth from a small base in FY16.

### Strategic Direction

Comvita CEO Scott Coulter said, "We are focused on the delivery of \$400m of sales in five years' time and solid growth in earnings per share over this period - the two key building blocks of our strategy being **security of supply** and new **product innovation**:

- **Security of Supply**

Comvita has been researching Manuka plant varieties since 2004, and 10 years ago, developed a formal breeding programme. We have planted over 1,000 hectares as commercial trials through this period and have identified varieties that suit specific geographic and climatic conditions. This means Comvita has a diversity of biological material with seedlings suitable for all regions.

The benefits of Manuka planting include using marginal land and erosion control, and providing multiple financial streams in addition to honey harvesting, such as Propolis production, carbon sequestration and pasture pollination. Comvita's agronomic R&D seeks to mitigate risks land owners may face such as low honey quality and plant loss, through implementation of best practice planting and superior genetic materials.

Mr. Coulter says, "Over the last two years, we have used our balance sheet strength to invest aggressively in Manuka UMF® honey supply, and our raw honey inventory is the strongest it has been at this time of year. For the first time in several years, we can now look to open new markets for high value Manuka honey. Comvita's new balance date of 30 June means we now measure the business at a period of peak supply, as most of our externally sourced raw honey is received between March and June. It is also worthy to note that Manuka honey can appreciate in value over time as the UMF® activity increases in storage."

We have made a number of strategic investments that will underpin our future supply security.

#### *Putake*

The 50:50 Joint Venture (JV) with Putake is progressing as anticipated. Comvita's existing relationship with Putake, which is a long standing member of the Comvita Supplier Partnership Group (SPG) Share Scheme, means the transition has been seamless. Putake's operations are in the Upper and West Coasts of the South Island and in North Canterbury. It includes ownership of 1,200 hives with an additional 2,800 hives under management through JV arrangements.

#### *Makino Station and JV with Apiflora*

Comvita has recently formed a JV apiary business with Apiflora, a long term honey supplier to Comvita. The JV has purchased Makino Station in the Ruapehu region, a 1,671 hectare hill country, sheep and beef farming property also known for producing very high quality Manuka honey. This 50:50 JV enables Comvita to increase its ability to secure the scarce resource of high-grade UMF® Manuka honey as well as develop a large Manuka plantation on the property.

#### *Supply Partnership Group*

Comvita announced in February 2015 that it was commencing a Share Scheme to reward its largest and most loyal honey suppliers who committed to long term supply agreements. Through this innovative Scheme, approximately 50 honey suppliers are able to participate in the 'value add' that Comvita can bring to raw honey and the resulting profitability of Comvita through dividend flow and capital appreciation of Comvita shares.

#### *Beekeeping Cadetships*

Comvita has identified skilled beekeepers as one of our constraints to growth, and this year we have employed 15 cadets from around the country on a scheme designed to build our local talent pool of beekeepers. We have partnered with Bay of Plenty-based, Pacific Coast Technical Institute to deliver the first year of the programme.

#### *Capilano*

The JV with Capilano Honey Pty Limited (ASX:CZZ) in Australia under the name of Medibee Apiaries Pty Limited, as announced on 2 March 2016, is now operational with the purchase of two separate apiary businesses. It is our intention for Medibee to operate a number of Leptospermum honey producing apiary businesses in Australia, to deliver premium honey for a range of medical and natural health products. Our first season of supply will be the summer of 2016-2017.

#### *Fresh Olive Leaf Extract*

Manufacturing and production upgrades have been implemented at our Olive Leaf plantations over the past year, resulting in increased throughput and improved production efficiency. This has been complemented with the propagation and planting of a further 80,000 trees to build future supply capacity to meet market demand trends. We have over a million olive trees over two estates.

- **Innovation**

A key focus of our long term strategy is to diversify away from dependence on Manuka honey based products and to leverage the strength of our brand. Consumer feedback has shown strong support for Comvita to develop new products that use new ingredients and deliver on new consumer health needs. With a large number of retail stores and dedicated sales counters across our markets, Comvita is ideally placed to quickly test prototypes and assess consumer uptake to ensure we have successful consumer products that we can then take into broader distribution. We have recently appointed Sharon Hollenstein as Chief Innovation Officer to drive growth in this area of our business.

#### *Fresh Olive Leaf Extract*

Comvita's Fresh Olive Leaf Extract is uniquely positioned to offer consumers a scientifically researched, natural source of health and wellbeing by capitalising on the benefits of Comvita's source to shelf business model.

The latest clinical research results, published in the European Journal of Nutrition<sup>1</sup> demonstrated that taking Comvita OLE for six weeks lowered blood pressure and improved cholesterol levels in study participants, relative to a placebo. This study has helped to strengthen links between Comvita's OLE and its ability to support cardiovascular health. The clinical trial data was well publicised in Australia and has driven our pharmacy sales growth of 31% over the last 12 months to June 2016.

### *Omega-3 Fish Oil*

Consumer products containing EPA and DHA Omega-3's have a global market value of \$31.4 billion. The Asian market is the largest segment and is expected to show double digit growth in the future. Omega-3's are the most researched compounds in health and nutrition, with over 3,000 human clinical trials and more than 28,000 published papers. There has also been recent publicity around the negative effects of taking low quality oxidised fish oil.

Against this background and increasing pressure on most of the world's fisheries, we decided to take a cornerstone shareholding in the New Zealand listed company, SeaDragon (NZX:SEA) which has recently built a state-of-the-art Omega-3 fish oil refinery in Nelson. With this control over the source of supply, we will be able to build a 'ship to shelf' business model delivering high quality product offerings with a unique New Zealand source story. This approach will ensure integrity of product quality all the way through the supply chain to the consumer. We have been working with the SeaDragon team to develop high quality product offerings with a unique New Zealand source story and we expect to launch products early in 2017.

### **Outlook**

Mr. Coulter said, "We have experienced our normal seasonal reduction in global sales during the April to June period. We have also experienced softer trading conditions as a result of the slowdown in demand in the Chinese market. This has been caused by a reduction in growth in the Chinese economy itself, as well as the introduction of a number of new regulations in that market that have created uncertainty in the re-export market distribution channels out of New Zealand and Australia. With our direct access to the China market through our dedicated distributor, we expect to reduce the impact of any downturn in sales through the re-export channels."

"Chinese regulators have recently increased their oversight and auditing of the New Zealand honey and wine industries. We welcome this focus on quality and the proposed changes that will support the price premiums we expect from having world class quality standards."

"While it is too early to forecast this year's level of profitability, we remain confident of our overall strategic direction and growing sales through an increasingly diversified product range with a strong focus on earnings growth."

1. Lockyer, S., Rowland, I., Spencer, J. P. E., Yaqoob, P., & Stonehouse, W. (2016). Impact of phenolic-rich olive leaf extract on blood pressure, plasma lipids and inflammatory markers: a randomised controlled trial. *European Journal of Nutrition*. doi:10.1007/s00394-016-1188-y

Ends.

### **For further information:**

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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.