

## Continued Growth

**SYDNEY, 20 July, 2009 - Healthzone Limited** (ASX code: HZL), a leading distributor, franchise retailer and producer of health and beauty products today announces that it expects to report double digit growth for the year to 30 June 2009 when it releases its full year results in late August.

Peter Roach, Executive Chairman of Healthzone, states: "Healthzone has successfully integrated the Health Minders and Jasham businesses ahead of schedule. Having established a leadership position in Australia's growing wellness sector, our key objective is to now expand profit margins in each business by adding value to what we do. Whilst Healthzone has achieved very encouraging results from preliminary margin growth activities, we have a long way to go to realise the full earnings potential of Healthzone's businesses."

### Brands

Healthzone derives gross profit margins of 20% to 80% for sales of Healthzone proprietary brands as compared to traditional wholesale distribution margins in the vicinity of 12%. Healthzone is now focussed on generating maximum return from Healthzone's position as Australia's leading health food channel distributor through distribution of higher margin products.

Healthzone has grown its proprietary brands portfolio to more than 300 products in response to demand for specialised health food products by national franchisees and wholesale customers. Healthzone's proprietary brands provide important strategic advantages, including security of supply, greater control, response to market needs, enterprise value and invested support by franchisees and health food retailers who require specialised health food products.

### Natural Alternative Products

Healthzone's "Natural Alternative" range of more than 100 products was launched in the second quarter of FY09, which includes functional foods and "free-from" foods, teas, cleaning products, natural body care and hair care products. Healthzone is progressing growth of the Natural Alternative range to more than 300 products in 2010.

Healthzone has developed the Natural Alternative range exclusively for the health food channel, which includes national retailers and Healthzone's network of more than 130 stores. The Natural Alternative range provides strategic advantages to Healthzone, including health food channel loyalty, sales expansion to non-Healthzone franchised stores, higher profit margins, control of supply arrangements and better response to the needs of Healthzone's retail customers.

### HL Vitamins and Supplements

Healthzone launched the "HL" range of vitamin and supplement products in FY09, which now consists of more than 65 products with attractive gross profit margins. The HL range is distributed exclusively through the Healthy Life retail franchise and equips Healthzone with the ability to develop products in response to emerging needs of consumers and retailers in Healthzone's distribution channels. Healthzone's national network of stores will underpin demand for HL products with support by Healthzone's national sales team. Healthzone is continuing development of HL products designed for the needs of our national customers.

### Healthy Life Foods

The Healthy Life Foods range consists of more than 50 functional food products and Healthzone is currently reviewing production and supply arrangements to enhance gross profit margins of this business. This range is supported by national marketing initiatives and Healthzone's national retail network.

## **Bod Skincare and Beauty Products**

The Bod range premium skincare and beauty has enjoyed continued international growth with further penetration into international markets, including the United States and the United Kingdom. In Australia, Healthzone has increased distribution of the Bod range to more than 300 stores with initiatives in progress to increase sales to Healthzone's 2,000+ pharmacy customers from FY10. Healthzone is continuing expansion of the Bod range, including development of products for the growing 'certified organic' sector.

## **Aurinda Vitamins and Supplements**

The Aurinda range of vitamins and supplements is distributed in China's health and beauty markets, which are estimated to be more than three times the size of the Australian market and growing at a faster rate.

In FY09, Healthzone expanded distribution of Aurinda products to the Chongqing and Xi'an provinces, which have populations of 13 million people with plans for further expansion to Cheng Du, Da Lian, Qing Dao and San Xi with populations of more than 55 million people in FY10. 5 new products were developed in FY09 with plans to market 15 new products in Australia in FY10 with the support of Healthzone's national sales team.

## **Distribution**

Healthzone is strengthening its capabilities to satisfy demand for one-stop supply and expertise of both health and beauty products by pharmacies, health food stores and department stores. Healthzone successfully integrated the Health Minders and Jasham businesses during the year and further enhanced its distribution capabilities in FY09 with the acquisition of the Pro-Hair and Alexem businesses. Pro-Hair is a hair care distribution business, which provides channel opportunities for the distribution of hair care and beauty products, including Healthzone brands. Alexem is an exclusive fragrance distribution business and provides Healthzone with distribution to large department stores, including the national Big W and Target chains.

## **Health Minders**

Health Minders has been established for more than 20 years and is Australia's leading distributor to the health food channel. Key profit growth activities for the Health Minders business include:

- distribution of proprietary brands which provide gross margins of 20% to 80%, compared to traditional wholesale distribution margins in the vicinity of 12%;
- value add and brand management services which provide Healthzone with margins of more than 20%, potential equity in third party brands and competitive advantages in the health foods distribution sector ;
- focus on high margin, such as pharmacy products, which provide average margins of 20%; and
- increasing the proportion of stock purchased by Healthzone banner stores from Health Minders by more than 40%.

FY09 performance of the Health Minders business was impacted by lost sales due to stock shortages by major suppliers in the vicinity of \$10 million, which is not expected to recur in FY10 and which will be partially mitigated through expansion of Healthzone proprietary product sales. FY09 performance was also partially impacted by the integration of South Australian operations into Healthzone's existing facilities for the purpose of improve service and EBITDA margins.

## **Jasham**

In FY09, Healthzone successfully integrated the Jasham pharmacy channel distribution business. The number of outlets in the pharmacy channel market is more than 5 times the number of outlets in the health food channel with distribution margins being 60% more than the Health Minders business and shorter cash flow cycles.

Healthzone is achieving early success with growth of the Jasham business, including:

- expansion of Jasham's customers to include 150 new retailers, including Priceline, Big W, Optimal Systems, Noel Allen, Tomeo Lasset and Miracle Management;
- more than \$1 million of new cosmetics sales in FY09 with average gross margins of 25% and activities to significantly expand cosmetics sales; and
- enabling access by suppliers (and Healthzone brands) to Jasham's 1,700+ national pharmacy channel.

## **Franchise**

In FY09, Healthzone strengthened its national franchise through consolidation of the Healthy Life, DVC and Healthzone banners into one Healthy Life brand. This consolidation greatly enhances the value of Healthy Life, is expected to result in increased supplier-marketing revenues and improve efficiencies in operations, management and marketing.

Healthzone has implemented a range of strategic initiatives through its Project 2010 program to boost profitability of its franchise and distribution businesses. These activities are resulting in greater market influence, support by franchisees of Healthzone initiatives and increased distribution sales by Health Minders. Progress of these initiatives is very encouraging with scope to generate further profits in FY10.

Healthzone is advancing the international growth of the Healthy Life franchise with establishment of a master franchise in China. Under the terms of master franchise, Healthzone will be entitled to royalties of \$700,000 for 2 years plus royalties of 25% of network sales in China from 2012 in addition to an up-front licence fee of \$1.5 million. Healthzone will retain first rights for greater participation in growth of the China franchise through investment. Benefits of the China master franchise include development of a national retail network in China, which will provide an export pipeline for proprietary brands and provide Health Minders customers with direct access to China's large and growing health markets.

## **Other**

Healthzone has appointed eight national sales executives with objectives to accelerate sales of Healthzone's proprietary brands and strengthen the Health Minders and Jasham businesses with brand management and sales capabilities. Healthzone's national sales team reports directly to Healthzone's Executive Chairman Peter Roach via Michael Trevaskis, who is former national marketing manager of Thompson's Nutrition. Reg Weine is focussing on projects outside of Company and will not be continuing with the Company. The national sales team will cross promote the services of Health Minders, Jasham and Healthzone retail.

During the financial year, Healthzone successfully concluded a convertible note issue to provide Healthzone with \$650,000 working capital for brands development and trading stock. The convertible note was issued with a 9.0% interest rate and will convert to shares on 31 December 2009 at the 5-day average closing price of Healthzone shares preceding conversion.

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## **BACKGROUND NOTES FOR EDITORS**

### **Healthzone Limited**

Healthzone Limited operates a portfolio of distribution, consumer product and retail businesses in the Wellness sector. Each business provides immediate opportunities for earnings growth through business development and integration. Healthzone's businesses are comprised of three principal activities;

#### **Health and Beauty Distribution**

- Health Minders national health food distribution, with National warehouse facilities
- Jasham distribution of beauty and fragrance products to more than 1,700 pharmacies and department stores in Australia.
- Healthzone distribution through more than 1,400 outlets in China.
- Distribution in North America, Europe and Asia.

#### **Health and Beauty Products**

- The "Healthy Life " range of health foods and beverages which are sold exclusively through Healthy Life stores.
- More than 65 "HL Vitamin" vitamin, herbal and mineral supplement products.
- More than 100 "Natural Alternative" products, including food, skin and body care and ECO household cleaning products.
- The 'Bod' range of premium skincare and beauty products, produced in Australia for sale in Australia, Japan, Hong Kong, Taiwan, Korea, Canada, Europe, Singapore, Malaysia and NZ.
- The "Aurinda" range of more than 45 vitamin and supplement products produced in Australia for export and local sale.

#### **Health Retail**

- Healthzone operates a network of more than 130 health food retail stores, including company stores in Sydney and Melbourne, which the company is expanding.
- Healthzone has more than 400,000 registered loyalty club members.
- Healthzone's Healthy Life magazine now has a circulation of more than 6 million copies per annum.