

# HealthzoneLimited

ASX Code: HZL

Overview

# Healthzone

|                         |  |  |
|-------------------------|--|--|
| Company Name            | Healthzone Limited   |  |
| ASX Code                | HZL  |  |
| Businesses              | Retail   | 130 + franchised stores<br>8 company owned stores  |
|                         | Distribution   | Australia's largest distributor to the health food channel<br>Jasham national beauty and fragrance distribution<br>International distribution to Asia, America, Europe |
|                         | Products   | 300 + Healthy Life products<br>Natural Alternative range<br>45 Aurinda health products<br>45 Bod skin and hair care products   |
| Headquarters            | Sydney, Australia  |  |
| Distribution Facilities | NSW, Victoria, Queensland, South Australia, West Australia |  |
| ASX Listing             | November 2006  |  |
| Shares on Issue         | 41.3 million   |  |

# Healthzone's Businesses and Brands

## HZL Retail

- 130+ franchised stores
- 8 company stores
- E-Com : Healthonline, Bod
- 400,000+ loyalty club members
- Wild Food stores

## HZL Products

- 300 Healthy Life
- Natural Alternative
- Bod
- Aurinda

## HZL Distribution

- Health Minders 5,000 retailers
- Jasham national 1700 retailers
- Asia 1,400 counters
- North America, Europe, Asia



# Healthzone Limited

| Healthzone Limited<br>Operating Performance | Statutory Year to<br>30 June 2007<br>\$ Million | Statutory Year to<br>30 June 2008<br>\$ Million | Change  |
|---|---|---|---------|
| Revenue                                     | 12.6  | 63.8  | + 406%  |
| EBITDA                                      | 2.3   | 4.8   | + 107%  |
| Pre-Tax Profit                              | 2.0   | 3.4   | + 67%   |
| Net Profit After Tax                        | 1.7   | 2.7   | + 59%   |
| Earnings Per Share                          | 6.3 cents                                       | 7.4 cents                                       | + 17.5% |

## FY 08 Highlights

- Acquisition and integration of Health Minders
- Acquisition and integration of Jasham International
- Developing more than 100 products for distribution through health food channel
- Project 2010 initiatives to boost distribution, retail and product sales
- \$6 million capital raising
- Expansion of export distribution in North America, South Korea and Hong Kong
- Platform for robust growth





# Distribution

## ■ Australia's largest distributor to the health food channel

- National distribution with facilities in NSW, Vic, Qld, SA, WA
- Distributes more than 4,000 lines to major supermarkets, pharmacies and health food stores
- Australian and international product supply customers
- \$70 million turnover
- 25 years
- Customers seek export expansion
- Margin growth through value add services . Introducing sophisticated market systems

### Key Objectives:

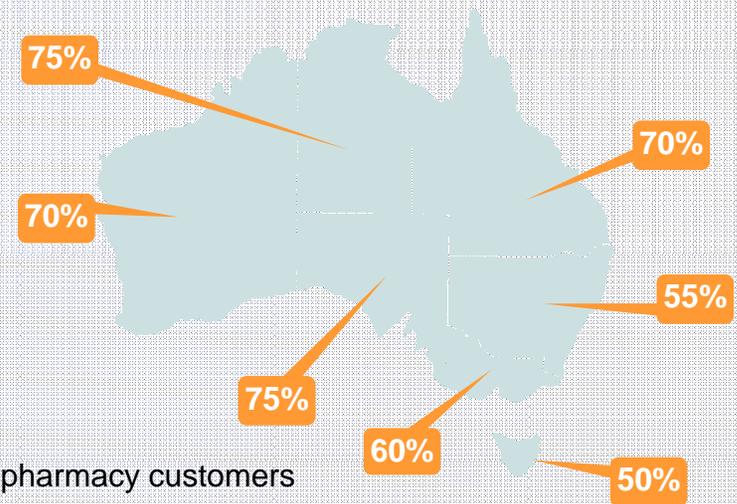
- Expand markets:
  - Scope : Pharmacy, high margin non-health food products
  - Import: Brands seeking entry to Australia from USA, Europe and Asia
  - Export: Australian brands seeking export growth in USA, Asia
- Value add services: Marketing, logistics, export development
- Margin expansion: Services and type of products

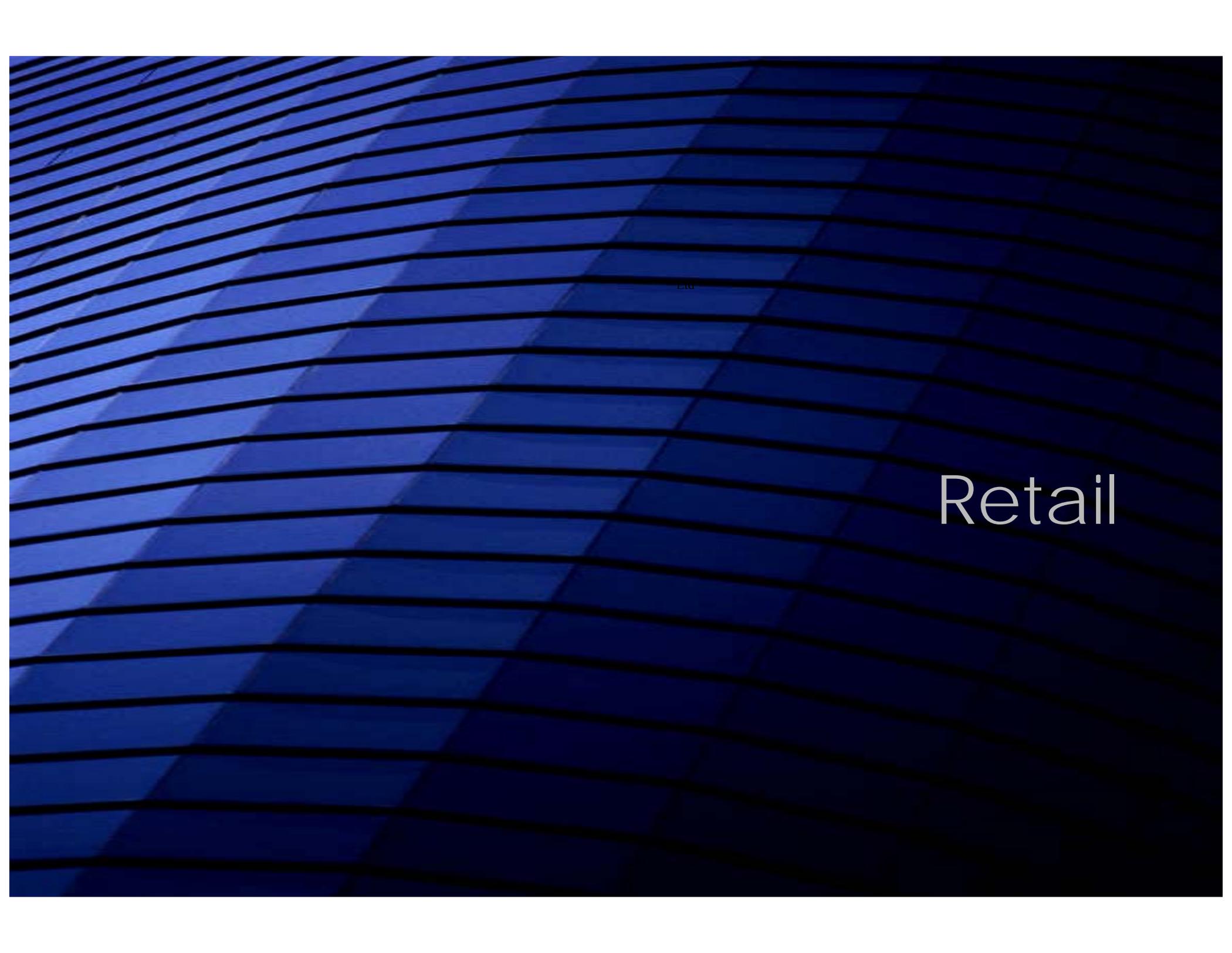


## Jasham - National Beauty Products Distribution

- Acquired June 2008
- National distributor of beauty products
- Annual EBITDA and Operating Cash Flow of approx \$2 million
- Advance cash flow cycle
- Price of \$1 million + stock + 2 x actual EBITDA
- Accelerates Healthzone penetration of pharmacy sector – more than 1,700 pharmacy customers
- Expansion of skincare and cosmetics distribution - BRW October 2008 Recession proof businesses
- Key Objectives
  - Capitalise on Healthzone scale
  - Utilise Jasham relationships for Healthzone Pharmacy expansion
  - Streamline / reduce overheads

## Market Penetration - Pharmacy





Retail

# Australian Retail

## Healthy Life – 120 stores - Australia's largest health food retail franchise

- \$90 million annual turnover of franchisee stores
- More than 130 franchised Healthy Life and DVC stores nationally
- More than 400,000 club life members and Healthy Life magazine subscribers
- Healthy Life Magazine with 4 million copies per annum
- Healthy Life commenced 1968

## Healthzone - 8 Company owned stores

- Fully integrated with uniform electronic platform
- Consumer and target brands intelligence
- Health-online electronic commerce platform (800+ products)
- Test market for product , retail and marketing development

## Wild Food

- 20% strategic interest in expanding health food retail and brands business
- High growth market and business model

## Key Objectives

- Expansion of the Healthy Life and Wild Food footprint to 200+ stores / 3 years
- Maximise synergies through combination of Healthy Life brand
- Boost turnover: superior service, merchandising, marketing, niches, training
- Expand GP margins: group buying power, focus on high GP products, supplier initiatives
- Apply market intelligence from stores, club members and online consumers
- Expand loyalty club members to 500,000+: marketing, enhanced offer to members
- Rationalise overheads: central administration, branding logistics and marketing





Products

# Healthy Life Products

## ■ Healthy Life Products Range

- More than 300 Healthy Life brand health food products
  - Vitamins and supplement
  - Nutritional foods
- Contract manufactured for distribution through Healthy Life stores
- Brand renovation in 2008
  - According to consumer research in our stores
  - For market expansion from 130 stores to 200+ stores



## ■ Key Objectives

- Turnover growth: Double growth with re-branding, Project 2010 and marketing
- Expand range: Deliver products tailored to emerging consumer trends and needs: stores and loyalty club
- Expand margins: Economies of scale, consolidated production , focus on high margin products

# Natural Alternative Products

## ■ Natural Alternative Products Range

- Key P2010 initiative for the health food channel
- Range developed for natural products demands of our markets
- Developed from research from national stores and 400,000 members
- More than 80 products developed in 2008
- Objective to expand range to 200+ products by 2010

- Pastas and flours
- Cake mixes
- Cereals and muesli
- Snack bars
- Chocolates
- Organic teas
- Soaps
- Organic cleaners
- Hair care
- Skin and body care

- Low cost launch with produce-to-demand contract manufacture
- Supported by health food channel and national franchise

## ■ Objectives

- Support by Health minders national health food customers and franchisees
- Continued development of products to meet consumer needs
- Margin expansion through economies of scale and focus on high margin products



# Bod Skincare Range

## Overview

- 45 + skincare and beauty products
- Bod Hair Care range developed for sale via HMPL
- Premium products and packaging
- Produced in Australia by Healthzone
- Distribution nationally and internationally
- Expanded sales in Healthzone stores
- Online Bod store established and trading
- Export expansion

## Key Objectives

- Leverage group retail store, wholesale and retail channels
- Further international expansion
- Focus on high GP margin products
- Continued expansion of product range
- Expand gross profit margins by 5% to 10%



# Aurinda Health Products

## Background

- Established 1996
- Range of 45+ OTC natural supplements and vitamins
- Produced by Healthzone in Australia using contract manufacturers
- Sold in Australia (Asian specialty stores) and China
- High GP margins

## Key Objectives

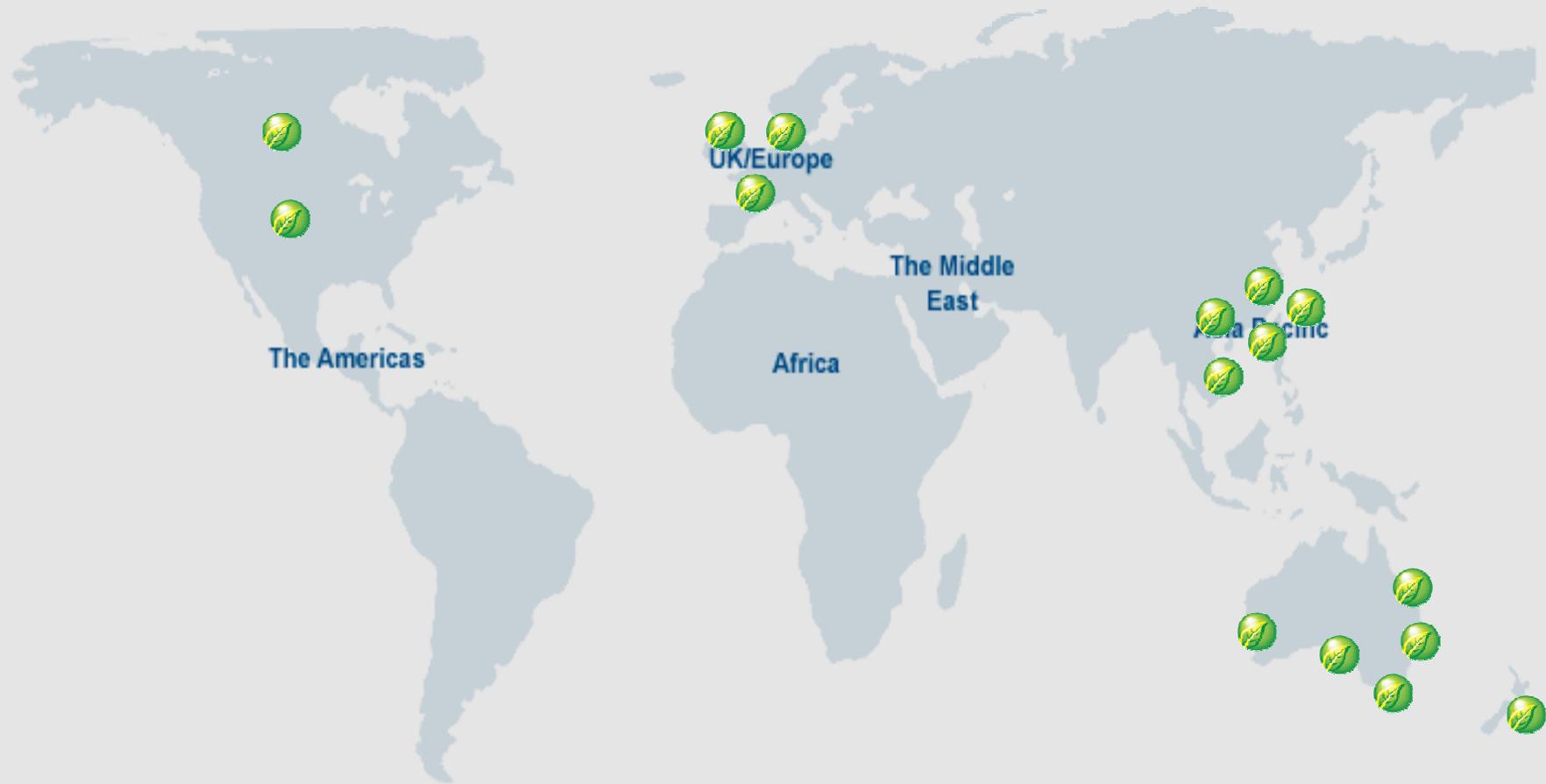
- Leverage Healthy Life, Healthzone and HMPL national distribution channels
- Expand product range and margins : Company owned and third party products
- Utilise channel to identify health and beauty products for distribution in Australian markets
- Expansion in Asia
  - Opportunities for Healthy Life Franchise growth
  - Licensing and joint ventures
  - Online distribution





Markets

# Global Markets



# Australia

## Australia

- >140 franchised and corporate stores
- >400,000 loyalty club members
- >65% of members over 50 years with 17% pa growth
- > 4 million Healthy Life news circulation
- > 3,200 pharmacy customers of 5,000 market
- > 800 Health food retailers
- Approx \$2 billion health foods and supplements sales

## Queensland

- Brisbane distribution facility
- 730 of 990 pharmacy customers
- 43 franchised stores
- 150 health food stores

## New South Wales

- Sydney distribution facility
- 1,000 of 1,700 pharmacy customers
- 56 franchised stores
- 290 health food stores

## Victoria

- Melbourne distribution facility
- 700 of 1,200 pharmacy customers
- 17 franchised stores
- 180 health food stores

## West Australia

- Perth distribution facility
- 350 of 500 pharmacy customers
- 9 franchised stores
- 90 health food stores

## South Australia

- Adelaide distribution facility
- 300 of 400 pharmacy customers
- 14 franchised stores
- 60 health food stores

# Markets - China

## China

- > 1.3 billion population
- > US \$13 billion beauty sales vs Aust \$2 billion
- > US \$7 billion OTC health sales

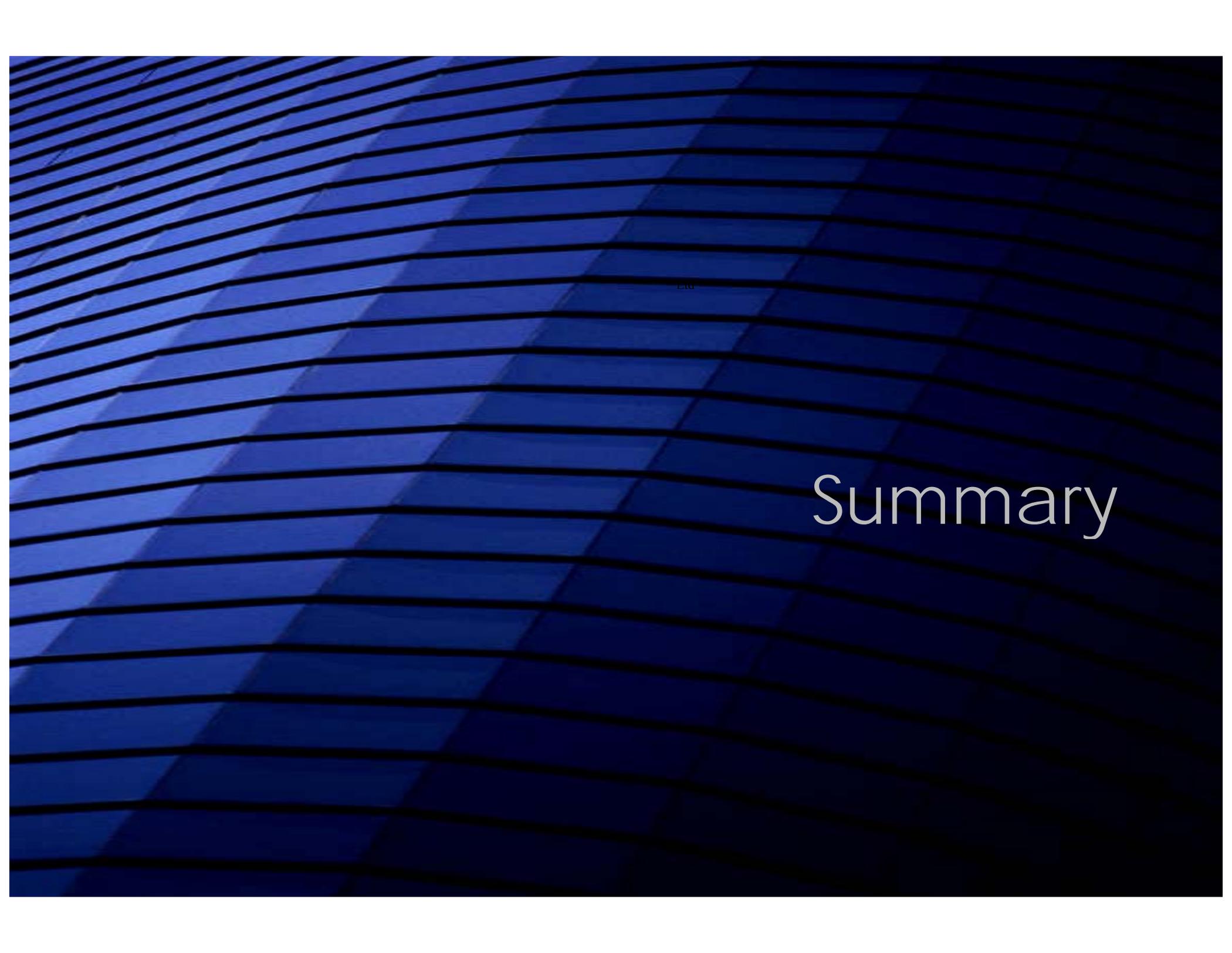


# Market Conditions

- Health consumption historically resilient to economic cycles
- Cautious outlook
  - Economic conditions
  - Employment, wealth, discretionary consumption
  - Real traffic and consumer spending
  - Changes in consumer trends
  - Challenging conditions internationally
- September 2008 quarter EBITDA of \$1.7 million
- Deferral of growth initiatives subject to certainty
- Target 20% to 30% growth in statutory EBITDA

# Project 2010 : Key Profit Growth Initiatives

- **Streamlined business administration**
- **Distribution**
  - Increase purchases from franchise and company owned stores
  - Value added services to suppliers
  - Expand market to new segments (pharmacy, grocery products) and geographic markets (import and export)
- **Retail / Franchise**
  - National support of company owned stores (2 brand focus with supplier support)
  - Enhanced marketing and co-ordination with franchisees (joint initiatives, effective marketing)
  - Expand retail footprint to more than 200 stores / 3 years
- **Other**
  - Expand Healthy Life and Natural Alternative range and margins
  - Expand market scope (pharmacy, non-health food products)
  - International trade



# Summary

# Outlook

- Profitable and expanding businesses, established for 35+ years
  - Largest Australian health food distributor
  - Largest Australian health food retailer
  - Leading Australian health food brand in China
  - Sustainable competitive advantages
  - Immediate opportunities for growth
  
- Project 2010 synergies
  
- Challenging economic conditions
  
- Experienced Management team adding value to each business
  
- Established platform for long term growth