



24 February 2021

ASX Announcement

Star Combo Pharma Ltd 1H21 Result

Highlights:

- **Delivered first half profit with NPAT of \$0.53M (vs 1H20 loss of \$1.2M) with strong margin improvement**
- **Revenue down 31% to \$14.7M due to COVID-19 impact on Retail Division (1H20 \$21.1M) - Revenue ramp up in the December quarter as retail division returns to growth and demand for contract manufacturing increases**
- **Strategy to grow the contract manufacturing business is progressing positively with expansion underway at the existing site**
- **DA application submitted for a new development at 165 Woodpark Road**
- **Successful TGA license extension to cover the manufacturing of liquids**
- **Supply agreement with Chemist Warehouse executed, and sizeable orders received for 2H21**
- **Outlook remains resilient with strong growing demand for Australian made products and continued transition to higher gross margin contract manufacturing**

Star Combo Pharma Limited (ASX: S66) ("Star Combo" or the "Company") is pleased to provide an update to the market for the first half of the financial year 2021.

The Company focused on business efficiencies during the half, aimed at bringing the business back to profitability. This involved a reduction in provision for doubtful debts as a result of improved debtor collections and optimising product in the contract manufacturing segment. Star Combo achieved a NPAT of \$0.53M (1H20 Loss \$1.2M).

Revenue was down 31% to \$14.7M (1H20 \$21.1M) in the half due to a slowdown in the retail division as a result of COVID-19. The company's retail division (the online platform business – Austoyou.com and retail stores – Koala Mall) was affected by international border closures and decreased tourism in Australia, but is showing signs of recovery, as evidenced by a stronger December quarter.

Star Combo's transition to the higher gross margin contract manufacturing has been beneficial in minimising the impact of COVID-19 on the overall business during the half. This segment has benefitted from growth in demand for Australian made health and beauty products.

Star Combo CEO, Ms Su Zhang said, "We have had a pleasing first half during unprecedented global economic conditions due to COVID-19. Our strategy to increase our contract manufacturing capabilities has continued to deliver, as we have seen this business continue to grow and help us reach profitability during the half. We continue to see increasing demand for Australian made health and beauty products globally and expect this to continue."

Star Combo successfully extended its TGA manufacturing licence to cover the production of liquids, during the half. Liquids are a growing form of health supplement for many brand owners. The granting of the TGA licence supports the growth of S66's contract manufacturing business and means that Star Combo now has a full-service manufacturing offering for its clients. It is expected that this will open up new market opportunities for the business.

In an endorsement of the quality of Star Combo's products, the milk powder facility audit from NSW Department of Primary Industries Food Authority received an A-grade rating. This is an important marketing tool for the company when attracting new customers.

Star Combo won a new manufacturing contract with Chemist Warehouse during the half. The contract is not of significant size, however sizable contracts have been received for 2H21 and it is expected to make a growing financial contribution to Star Combo's revenue. The contracts indicate the momentum that Star Combo is gathering as it sells its enhanced contract manufacturing offering to an expanded customer base.

Star Combo recently submitted a Development Application for its expansion at 165 Woodpark Road where the Company will construct a modern R&D facility and Test Laboratory Centre. The ongoing expansion at the Company's existing manufacturing facility at 171 Woodpark Road remains on track and is expected to be completed within two years.

The outlook for Star Combo remains positive with growth expected to continue within the contract manufacturing segment.

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This ASX announcement has been approved by the Board of Directors of Star Combo Pharma Limited.

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About Star Combo Pharma

Star Combo Pharma Ltd (ASX: S66) is a Sydney based contract manufacturer of vitamins, health and beauty products with a portfolio of own brands and distribution capabilities. Our products are made from natural ingredients with scientific R&D and adheres to the highest manufacturing practices governed by the Therapeutic Goods Administration. Star Combo has offices in China and currently supplies the Australian pharmacy network through 450 Terry White Chemmart stores as well as wholesale customers in Australia and China. Directed by pharmacist and experts in health supplement manufacturing, Star Combo's vision is to be the leading manufacturer of premium vitamins and dietary supplements in Australia. Since its establishment in 2004, Star Combo has demonstrated strong product and business development and continues to expand our current operations to serve our loyal business partners, customers and employees.



Star Combo Pharma Limited

1H21 results



CEO Su Zhang
24 February 2021

Sydney-based contract manufacturer of vitamins, health and beauty products, with a portfolio of own brands and distribution capabilities

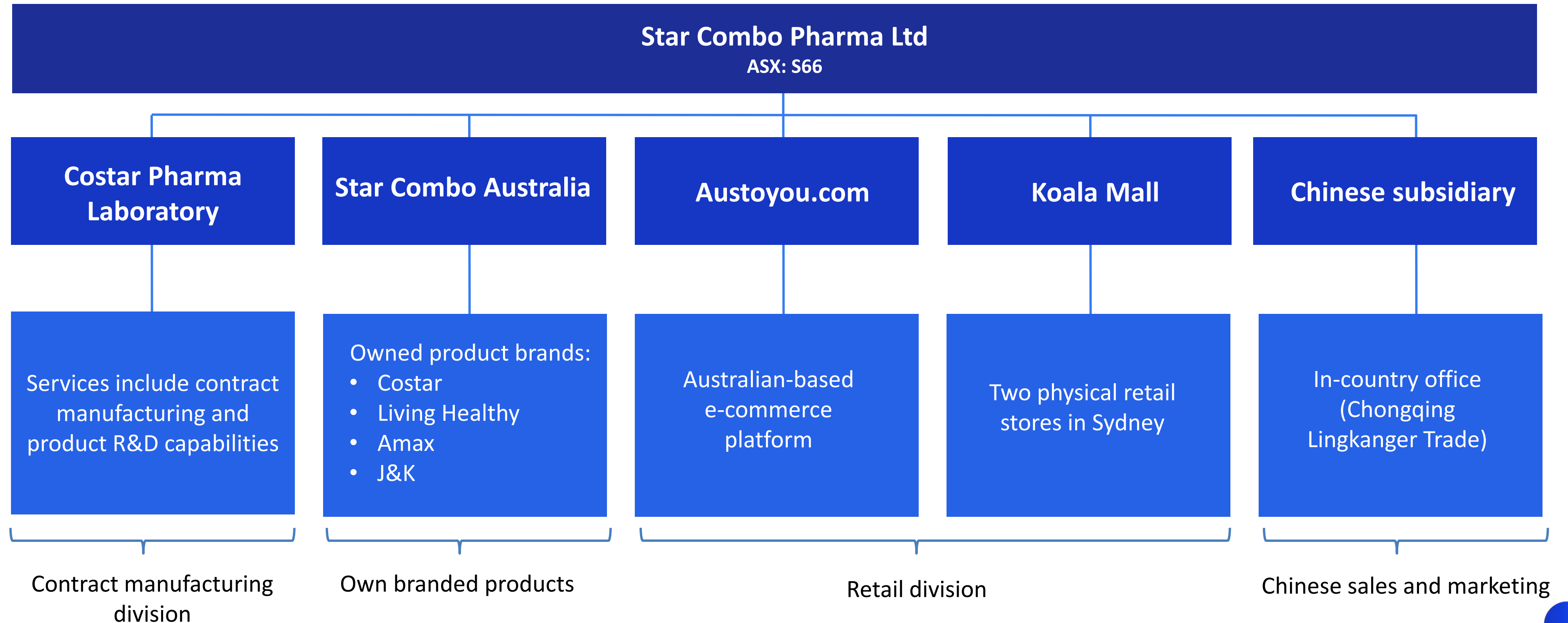
- TGA-licensed manufacturing facility
- Multiple distribution channels throughout Australia and China
- Recent and ongoing significant investment to increase contract manufacturing production capacity
- In-house R&D capabilities to develop new products quickly and at low cost

VISION: To be the leading manufacturer of premium vitamins and dietary supplements in Australia

INTEGRATED BUSINESS MODEL

STARCOMBO

Diversified revenue stream providing resilience in unprecedented COVID-19 environment



INVESTMENT HIGHLIGHTS

STARCOMBO



Established revenue-generating business

- 16 years of operations
- Revenue-generating business with vertical business model, control over supply chain



Profitable

- Focus on business efficiencies and revenue growth
 - Successfully growing contract manufacturing despite COVID-19 headwinds
 - On track to be most comprehensive manufacturing offering in Australia



Clear growth strategy

- Expedited growth strategy due to capital investment from strategic investor
- FY21 outlook remains resilient with continued transition to contract manufacturing



Diversified business

- Three revenue streams: Contract manufacturing, Retail Touchpoints (Austoyou.com and Koala Mall) and Own Branded Products



Benefit from macro trends

- Growing Chinese market – Chinese middle-class population >550M by 2022
- Ongoing demand for Australian Made health and beauty products

1H21 Highlights



- **Delivered maiden first half of profit since IPO with NPAT of \$0.53M compared to (\$1.2M) in 1H20**
 - Strong margin improvement due to strategic focus on optimising product in the contract manufacturing division and improved receivables collections
- **Revenue down 31% to \$14.7M due to COVID-19 impact on Retail Division (1H20: \$21.1M)**
 - Revenue ramp-up in December quarter as retail division returns to growth and demand for contract manufacturing increases
- **Contract manufacturing expansion strategy on track**
 - Contract manufacturing revenue now contributes 22% of revenue, up from 17% in 1H20
 - Investment to upgrade existing manufacturing capabilities at 171 Woodpark Road on track + DA submission for 165 Woodpark Road site
- **TGA licence extension to cover liquid products, allowing full-service offering for clients**
- **Chemist Warehouse contract manufacturing order signed in 1H21 and sizable orders received for 2H21**
- **Outlook remains resilient, with strong demand for Australian Made + continued transition to higher-gross-margin contract manufacturing**

Financial Highlights

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(A\$m)	1H21	1H20	<i>Change</i>
Operating revenue	14.67	21.12	(31%)
Operating profit (loss) attributable to owners	0.53	(1.23)	143%
Operating profit (loss) attributable to shareholders of S66	0.51	(1.23)	142%
Operating cash flow	(0.07)	(0.48)	86%
Net asset backing per ordinary share (\$)	0.331	0.215	54%
Net tangible asset backing per ordinary share (\$)	0.242	0.205	18%
Basic earnings/(loss) per share (cents)	0.004	(0.010)	140%
Diluted earnings/(loss) per share (cents)	0.004	(0.010)	140%

Financial Review



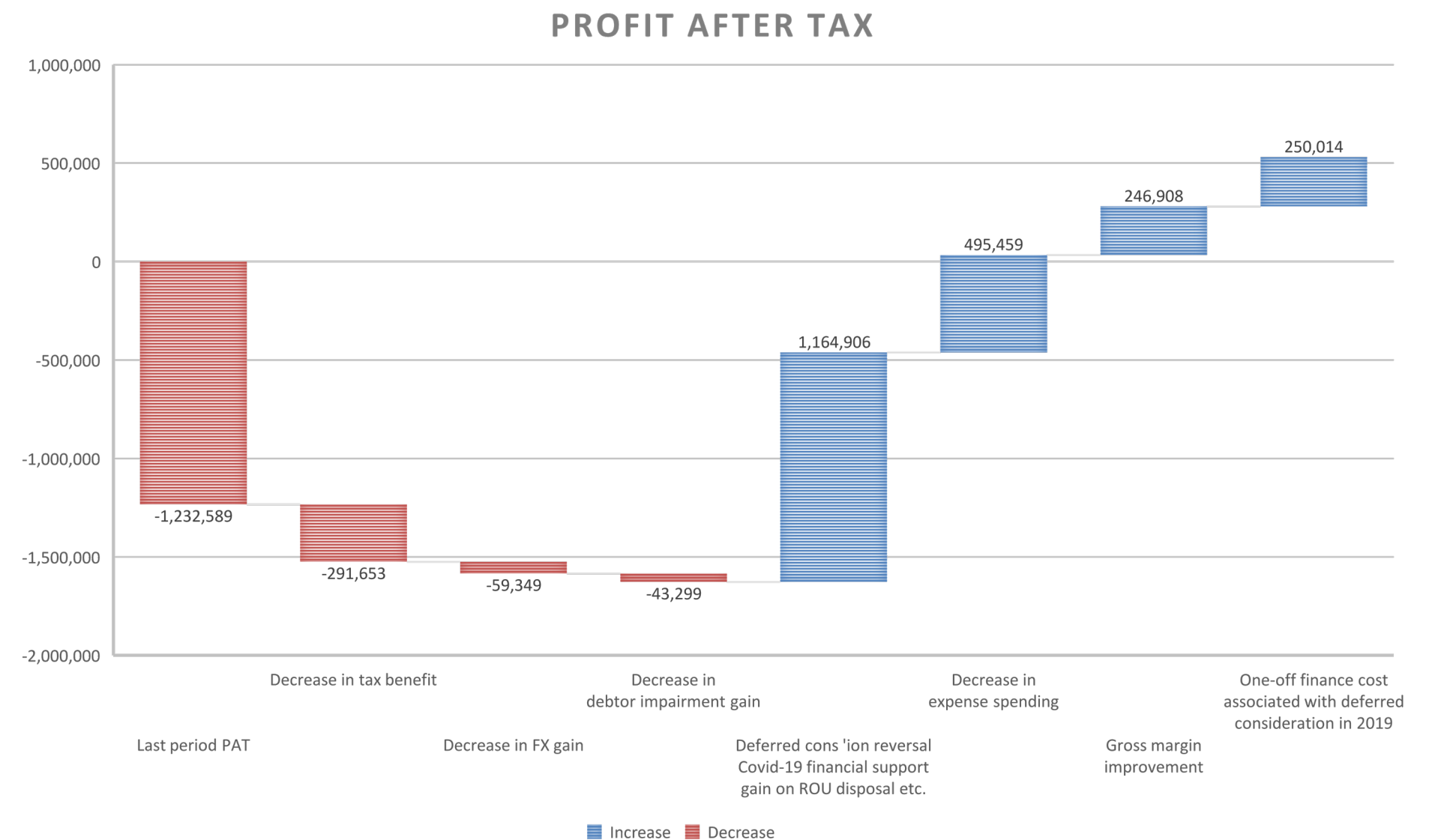
Business reaches profitability first time since IPO

STARCOMBO

Margin improvement driving result

- **NPAT of \$0.53m 1H21 compared with (\$1.2m) 1H20**
 - Increase in gross margin on sales to \$1.80m (1H20 \$1.55m)
 - Reduction in expenses to \$2.42m (1H20 \$2.92m)
 - Reversal of provision for deferred consideration, govt financial support, gain of ROU assets disposal and one-off finance costs relating to deferred consideration

Waterfall chart



Waterfall chart above shows movement in relevant items from NPAT of (\$1.2m) 1H20 to NPAT of \$0.56m 1H21

Moving closer to positive operating cash flow

STARCOMBO

(A\$m)	1H21	1H20	<i>Change</i>
Operating cash flow	(0.07)	(0.48)	86%
Investing cash flow	(4.38)	(2.31)	(90%)
Financing cash flow	(2.13)	0.52	(509%)
Cash and term deposit at the end of the financial period	20.02	2.35	751%

- **Operating cash outflow of \$67.8k**
 - Improvement on receivable collection
- **Investing cash flow up 740%**
 - As S66 rolls out its contract manufacturing expansion strategy at Smithfield
- **Financing cash outflow of \$2.13m**
 - Repayment of borrowings

Operating review



STRENGTH IN CONTRACT MANUFACTURING REVENUE

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Revenue by Division and Country

(A\$m)	1H21	1H20	Change
Star Combo	7.13	6.19	15%
<i>Australia</i>	<i>5.99</i>	<i>6.06</i>	<i>(1%)</i>
<i>China</i>	<i>0.13</i>	<i>0.10</i>	<i>29%</i>
Austoyou and Koala Mall	8.73	14.96	(42%)
<i>Australia</i>	<i>2.59</i>	<i>4.42</i>	<i>(41%)</i>
<i>China</i>	<i>5.69</i>	<i>10.54</i>	<i>(46%)</i>
Total group revenue and other income	15.86	21.14	(25%)

- Continued to progress contract manufacturing expansion strategy - delivering solid revenue performance
- Contract manufacturing segment delivered 22% of total revenue (up from 17% in pcp)
 - Continued to win new OEM customers and remained resilient in the face of COVID-19
- Retail division affected by COVID-19 environment and impact on customer behavior and supply chains
 - Revenue ramp up in December quarter as retail division returns to growth and demand for contract manufacturing increases

EXECUTING ON CONTRACT MANUFACTURING GROWTH STRATEGY

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Expected to deliver substantial ROI with full return on investment within three years of the lines being in production

Expansion and upgrade of facilities at 171 Woodpark Road, Smithfield, NSW

- Expansion and upgrade of wholly owned TGA-licensed nutraceutical manufacturing site commenced September 2020, expect to complete within 2 years
- Involves expansion of existing facility and installation of 13 new product lines
- Capital investment of c\$11m
 - Address growing demand in local and overseas markets for Australian Made premium vitamins and dietary supplements
 - c\$5m to be invested to upgrade existing facility
 - c\$6m for acquisition and installation of additional plant to establish 13 new product lines

Key features of completed upgraded site

- TGA-licensed
- GMP compliant
- NSW Food Authority compliant
- DAWR export licence for dairy product
- Full designed production daily capacity of 46 million capsules/tablets
 - Expected to allow 100+% increase in production capacity compared to current facility

Supporting strategy to become leading OEM supplier of premium vitamins and dietary supplements, primarily in AUS

Acquisition of land at 165 Woodpark Road, Smithfield, NSW

- Land purchased for \$3.7m and \$0.2m associated costs, 3,700m²
- DA application lodged
- Located adjacent to existing TGA-licensed manufacturing facility – 171 Woodpark Road
- When developed will accommodate R&D and Test Lab Centre
- Will significantly enhance capacity to develop new and innovative products to address the growing demand in both local and overseas markets for vitamins & dietary supplements

Focus on expansion strategy helping business reach profitability

- New manufacturing contract won with Chemist Warehouse
 - Whilst initial contract not of significant size, sizable orders received for 2H21
- TGA manufacturing licence to cover the production of liquids
 - Allows the group to offer full-service manufacturing to clients
 - Expected to open new marketing opportunities
- A-grade rating for Milk Powder Facility from NSW Department of Primary Industries Food Authority
 - Important operational and marketing feature

Strategic priorities and outlook



GROWTH STRATEGY – 6 PILLARS

STARCOMBO

OEM expansion strategy

- Expansion of current facility to significantly increase production capacity by 2022 (100+%)
- Acquisition and development of new building facility to further increase production capacity

Invest in production capacity to achieve economies of scale

- 13 new production lines to be set up to improve production turnaround times
- Higher volumes of production to achieve economies of scale

Strengthen focus on R&D

- Commercialise new products for clients, via contract manufacturing and OEM service
- Establish in-house testing laboratory function

Broaden service offering

- Focus on strong customer service and support to improve customer satisfaction
- Maintain high-quality standards of manufacturing and production

Sustain price competitiveness

- Deliver competitive pricing on products with economies of scale
- Increase value proposition to deliver 'value for money' for clients

Addition to sales team

- Provide more targeted client segmentation and management
- Deliver on validated customer needs

- Contract manufacturing outlook remains resilient, with strong demand for Australian Made both domestically and internationally
- Committed to strategic focus to grow the higher-margin contract manufacturing segment and invest in production capacity
- With an expanded product offering expect to continue to win new contracts
- Retail division has seen an improvement in December quarter and expect trajectory to continue

A woman with a backpack is sitting on a rock, looking out over a mountain landscape at sunset. The sun is low on the horizon, creating a warm, golden glow. The woman is wearing a white tank top, grey shorts, and brown hiking boots. She has a large orange backpack on her back. The background shows a mountain range under a cloudy sky.

Investor relations

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THANK YOU

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