27 February 2020

COMVITA ANNOUNCES HALF YEAR RESULT

Financial results for the six months ended	31 December 2019 unaudited	31 December 2018 unaudited
Revenue	**$94m**	**$78m**
NPAT*	$(12.97)m	$(2.68)m
Non-operating items	$5.8m	$(0.7)m
Underlying EBITDA**	$1.34m	$1.01m
Net debt	$93m	$104m
Net operating cashflows	$0.9m	$6.3m

*NPAT: Net profit after tax
**Underlying EBITDA: earnings before interest, tax, depreciation and amortisation adjusted for non-operating and one-off items. EBITDA, operating and underlying are non-GAAP measures. We monitor these as key performance indicators and believe it assists investors in assessing the performance of the core operations of our business.

Headlines:

- $12.97m loss including $2.3m impairment of Australian asset due to bush fires
- Underlying EBITDA +32% year on year
- $15m cost out and business transformation plan launched
- Simplification of business model to take place
- China earnings improved by 30%
- Core products Propolis and Olive Leaf Extract are known to support immunity. Propolis and Mānuka honey together make up over 90% of revenue.
- Honey harvest encouraging
- Capital raise announced

$15m cost out and business transformation plan launched and capital raise announced as China strategy shows early promise

Comvita (NZX:CVT) has today announced performance for the six months ending 31 December 2019, reporting a net profit after tax (NPAT) at a loss of $12.97m. Non-operating items accounted for $5.8m of this NPAT loss. This figure included a non-cash impairment of an asset in Australia as a result of the Australian bush fires and the release of an acquisition fair value adjustment related to Comvita China's inventory. Revenue for the period increased by 20.7% as a result of the integration of our new subsidiary in China, following the purchase of the joint venture in May 2019.

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When allowing for one-off costs and non-operating costs, underlying EBITDA** increased by 32% to $1.34m, highlighting decisions taken during the strategic review conducted last year were already starting to benefit the company and set the business up to a return to profitability.

Brett Hewlett, Chair, commented “We are hugely disappointed by another negative result which has seen a loss for the third reporting period in a row. We are working tirelessly to turnaround performance and deliver the result we know the business is capable of. As we shared at the Annual Shareholders' Meeting in October 2019, this is a year to stabilise, reset and refocus the business. We are on track to restore underlying net earnings growth, we are generating positive cashflows, paying down debt and now have our new CEO, David Banfield, on board. Under David's leadership, we are setting ourselves up for a rebound into FY21”.

$15m business transformation plan launched

CEO David Banfield, today launched the Comvita business transformation plan which aims to improve gross margin by 5.0 percentage points (500bps) and decrease fixed costs by at least $5m per annum over the next three years. We expect to see fixed cost savings benefit the business in FY21 with the full benefit seen in FY22/23. Margin improvement is also expected to flow through in FY22/23. Banfield said “It's evident from our performance that our current cost base is too high and incapable of supporting delivery of our long-term earnings growth targets. Our transformation plan is designed to bring the focus back to the business, simplify operations and ensure we have sustainable profitable returns from all of our investments”.

Business simplification

David Banfield shared his initial findings having started with Comvita in January 2020. His review highlighted how the overall business has become overly complex, cumbersome and slow to react to external factors, both positive and negative. The key to delivering longer-term opportunities will be to simplify the Comvita operating structure. Banfield said “I see this as phase two of the work the Board and Executive Director, Brett Hewlett, started during the first half of 2020. Our ability to free up cash by simplifying and integrating processes will enable us to spend our time focusing on places where we win, in-market in front of customers and consumers. Here in Paengaroa, New Zealand, we have renamed our head office as our Market Support Centre to emphasise our role to help markets win”.

China market shows early promise

Comvita completed the acquisition of 100% of its China joint venture in May 2019, having formed a joint venture with its long-term distributor in July 2017. Winning in China is crucial to enable long-term profitable growth and as such, we were delighted to see revenue on a like-for-like basis increased by 15%. China's net contribution increased by 30% year-on-year, despite an increase in marketing investment of over $1m during this period designed to further grow the Comvita market leadership in China.

From a commercial perspective, we are seeing sales impacted in the short-term by dramatically reduced shopper traffic (footfall) as a result of travel bans and people remaining at home following Chinese New Year. Where people are shopping, we are seeing strong demand for our Propolis products, which are known to support immunity, and Mānuka honey. Propolis and Mānuka honey represent over 90% of our revenue.

Comvita is pleased to be part of a solution to help consumers support immunity and have been increasing inventory of Propolis products in-market to ensure we can capture elevated demand once shopper habits return to normal. Historically we have seen a significant uplift in sales in the winter months as consumers look to support their immunity with these products.

Honey harvest encouraging

Comvita is 50% of the way through the extraction of the current 2020 harvest and 25% through testing the quality. Initial signs are encouraging with volumes well ahead of both 2019 and 2020 budgeted harvests. All extraction plants are operating at full capacity. A full assessment of quality (Mānuka UMF grade) will be completed by the end of April at which time Comvita will update the market.

Capital raise

With the announcement of a broad reset of the business with a new Chair, new CEO and a new strategy, Comvita announced its intention to undertake a capital raise, including a renounceable rights issue to existing shareholders, enabling it to deleverage the business and build resilience for the company during this phase. Craigs Investment Partners and Forsyth Barr have been appointed as joint lead managers for the raise. Details of the rights issue are expected to be announced in mid-March. Hewlett said "While various industry analysts have expressed their concern over the Comvita gearing, the Board was comfortable that elevated debt was covered by inventory that increases in value whilst in-stock. The Board now feels that given the reset mentioned above, the time is right to address the concerns raised and in the process, de-risk the business".

Hewlett continued, "Prior to the strategic review, the Comvita business model had become too inflexible and the business had become too slow or unable to adapt to changes in market conditions. This meant it was very difficult to mitigate the external impacts of poor honey harvests, daigou channel or regulatory changes that have negatively impacted our performance and share price over recent years. Solving these issues has been a real area of focus and we are pleased to have moved to a new supply model that effectively mitigates downside risk during poor harvests, whilst still giving upside opportunity. With the purchase of 100% of our China joint venture, we are also able to manage the daigou channels holistically. This will mean that these short-term trading challenges are largely behind us."

Conclusion

Comvita are in the middle of a reset with a new CEO, new Board structure, an absolute focus on simplifying the business and the product categories where they aim to extend their leadership. The Board is confident that the business will start to show tangible improvements to underlying performance as a company and demonstrate the true potential of the Comvita premium global brand which in turn will be reflected in the market and restore intrinsic value to the share price.

For a more detailed analysis regarding the first half of FY20, please refer to the Financial Statements and Investor Presentation respectively, loaded onto the Comvita website, (www.comvita.co.nz) and the NZX (www.nzx.com).

Ends.

For further information:
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Background information

About Comvita (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.