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Comvita updates FY24 guidance and FY25 plan

Comvita Limited (NZX:CVT) is today updating its FY24 guidance, reflecting weaker conditions in Q4 FY24, despite improved performance during Q3.

The company now expects lower revenue and adjusted EBITDA* for FY24. The key driver for this change to guidance is the prolonged weakness of consumer demand in the China market, exacerbated by the partial cancellation of the 6:18 Festival, China's second-largest retail festival. Given the prolonged weakness, the company has also reviewed its FY25 plan.

Summary:

- Quarterly sequential improvements for the first three quarters. Q3 revenue was flat vs PCP
- Q4 is now forecast to be impacted by the continuation of weaker consumer demand and underperformance of the 6:18 festival in China, which has affected many premium categories
- FY24 revenue and adjusted EBITDA* is now expected to be lower (see table below)
- \$50M EBITDA* target within the FY25 strategic plan, is now considered to be unachievable in FY25
- Gross margin remains strong. FY24 gross margin is expected to be c60%
- Net debt and inventory as at 30 June 2024 are still expected to be below December 2023 levels, as indicated in February 2024

Updated FY24 guidance

Expected FY24 Revenue: \$211M - \$218M (previously \$225M - \$235M in February 2024)
Expected FY24 adjusted EBITDA*: \$23M - \$28M (previously \$30M - \$35M in February 2024)

Group revenue through the first three quarters of the year had seen improvement, as shown in the table below. Guidance in February was based on the partial recovery of Chinese consumer demand in Q3, but this has not continued into Q4.

Group revenue progression: Q1 (Jul-Sep 23): -8.8% vs PCP
(vs prior corresponding period) Q2 (Oct-Dec 23): -6.9% vs PCP
Q3 (Jan-Mar 24): +1.5% vs PCP

Seasonally, Q4 (Apr-Jun) is typically the highest or second highest quarter for revenue and profit contribution with heightened demand normally generated by the 6:18 Festival, a major annual trading opportunity for the company. But this year Comvita now anticipates performance to be considerably below what the February guidance contemplated. H2 FY24 revenue is now expected to be \$110M (mid-point of above range), down 9.7% vs H2 FY23.

The weakness shown in April's result is primarily due to the cancellation of pre-sales for the 6:18 event in China and this has now been forecast to continue for the quarter. Market demand in Mainland China is responsible for c60% of the change to guidance, while the flow on impact of the decline in China into Australia and New Zealand, Rest of Asia and EMEA accounts for the additional c40%. Meanwhile, North America continues to trade in line with February guidance.

While consumer sentiment remains weakened, Comvita's market positioning has remained strong and Comvita continues its premium product strategy, maintaining margins at c60%. The company remains on track with its FY24 cost out programme of around \$8M.

*EBITDA is a non GAAP measure and for FY24 excludes investment in its ERP system and non-operating expense



Update on other markets

- America – Continues to broadly trade in line with February guidance
- ANZ – Impacted by Daigo cross border sales into the China market
- Middle East – Shipments for new listings delayed into FY25
- Rest of Asia – Impacted by stalled growth in Korean market

FY25 strategic plan

In 2020 Comvita launched its FY25 strategic plan. Over the first three years, Comvita was successfully tracking to its FY25 strategic plan, including its EBITDA* target of \$50M for FY25. However, FY24 has seen a significant change in economic conditions and consumer sentiment globally.

Based on latest assessments in its key markets, in particular the market in China, the underlying economic assumptions for the FY25 plan now appear very unlikely to be realised. Accordingly, Comvita now consider the EBITDA* target unlikely to be achieved in FY25.

In response to the significant change in consumer sentiment globally, a cost-out programme for FY25 has been initiated, over-and-above the FY24 programme, and is targeted to deliver incremental savings of \$10M (COGS and Opex).

Comvita will provide the market with an update on its outlook for FY25 when the company reports its FY24 results in August.

In terms of the strategic plan, the company remains committed to meeting its targets with respect to pricing and gross margins, indicating strong potential once market conditions normalise, although timing of this normalisation is not yet clear.

Management commentary

CEO David Banfield said that although the company was maintaining its margins and market share, it is taking further action in response to weaker market conditions to remain agile in the face of challenging operating realities.

“It’s really disappointing to provide a further update to guidance, given the progress we have made on our strategic plan to grow value and lift performance since 2020. We have created a platform for growth over the last four years that will enable us to thrive once conditions improve.” He said, “The realities of what now is a more sustained slowdown in our key markets, including a significant drop off in China in Q4, make it necessary to further reduce costs to reflect these tougher conditions.”

Chairman Brett Hewlett said: “The underlying value of Comvita’s assets, its high quality products and services, its scaled sustainable supply capability, premium brand positioning, international business operations and networks offer significant growth opportunities over the medium to long term. However, notwithstanding the team’s hard work to grow margin and market share, the decline in broader market demand is something we must adjust for in the short-term, whilst ensuring we remain well-positioned and apply flexibility in our responses to market conditions as they evolve.”

David Banfield
CEO

Brett Hewlett
Chair

ENDS.

For further information:



Kelly Bennett | One Plus One

Mobile: +64 21 380 035

Email: kelly.bennett@oneplusonegroup.co.nz

Background information

Comvita (NZX:CVT) was founded in 1974/5, with a purpose to heal and protect the world through the natural power of the hive. With a team of 600+ people globally, united with more than 1.6 billion bees, we are the global market leader in Mānuka honey and bee consumer goods. Seeking to understand, but never to alter, we test and verify all our bee-product ingredients are of the highest quality in our own government-recognised and accredited laboratory. We are growing industry scientific knowledge on bee welfare, Mānuka trees and the many benefits of Mānuka honey and propolis. We have pledged to be carbon neutral by 2025 and carbon positive by 2030, and have planted millions of native trees aiding biodiversity and supporting future demand. In 2023 Comvita was certified B Corp, a global community of like-minded companies that strive to balance profit with purpose, seeking to use business as a force for good. Comvita has operations in Australia, China, North America, Southeast Asia, and Europe – and of course, Aotearoa New Zealand, where our bees are thriving.