29 August 2024

AMENDED: Comvita FY24 results impacted by challenging market conditions

Comvita Limited (NZX:CVT) is reporting FY24 results, which were impacted by challenging market conditions, as well as a substantial non-cash impairment and one off non-recurring costs.

FY24 Results snapshot

- **Revenue** of $204.3M -12.7% vs PCP (FY23: $234M)
- **Gross profit** of 55% -300bps vs PCP (FY23: 58%)
- **EBITDA***
  - Reported pre-impairment $4.5M (FY23: $30.6M)
  - Underlying** $10.3M (FY23: $33.5M)
- **NPAT**
  - Reported -$77.4M (FY23: $11.1M)
  - Underlying** -$9.3M(FY23: $13.1M)
- **Non-recurring** one off costs of $7.6M
- **Non-cash impairment** of $64.2M before tax (FY23: $0)
- **Net debt** $79.7M (FY23: $53.4M)
- **Inventory** $134.4M (FY23: $136M) targeting material inventory reduction in FY25
- No dividend declared

Key points

- Demand: Abrupt change in consumer demand following macro-economic challenges in China and loss of a major customer in the North America market
- Cancellation of major shopping events (12:12 and 6:18 shopping festival) and weak 11:11 festival in China severely impacted demand
- Pricing: Significant unsustainable aggressive short-term price driven promotions from competition and beekeepers exiting the category
- Supply: Over production from FY17 – FY22 has created a glut of honey being cleared in markets around the world. Between 2020 and 2023 there has been a 56% reduction in supply, in addition, hive numbers are forecast to drop by 50% to c500K by 2025
- Business model designed for anticipated growth with a significant fixed cost element
- Long term cost-out programme initiated and on track, targeting $10M-$15M annualised savings to enable Comvita to be agile through different economic cycles

CEO David Banfield said "I'm extremely disappointed with the results that we report today, particularly after three consecutive years of record performance. Throughout FY24 we faced difficult trading conditions in our key markets along with aggressive price activity from competitors caused by industry overstocks. Our revenue and gross profit decline along with significant non-recurring costs and a non-cash impairment has resulted in a net loss of -$77.4M with an underlying net loss after tax of -$9.3M. We already have action underway to target value consumers whilst continuing our brand premiumisation in key Asian markets. Our $10-15M cost out programme is on target and is designed to streamline and simplify the business and ensure agility through different economic cycles. In addition, we have a clear focus on inventory reduction enabling us to reduce net debt to targeted levels.

I'd like to thank and recognise the hard work and resilience of the team in New Zealand and markets around the world as we navigate these tough trading conditions." Concluded Banfield.

Financial Overview
Comvita revenue declined by $29.9M to $204.3M in FY24. Weaker sales were reported in China, North America, ANZ and EMEA offset somewhat by revenue growth in South East Asia in its HoneyWorld™ retail outlets. While percentage gross profit remained robust at 55%, one off and non-recuring costs of $7.6M(after tax) meant that the company recorded an NPAT loss of -$16.9M before impairment, and an underlying NPAT loss of -$9.3M after impairment. This weaker performance led to a material gap between the company's net total assets (tangible and intangible) and its market capitalisation, indicating potential impairment. An independent impairment review was initiated by the board, resulting in a non-cash impairment of $64.2M (before tax). Including this impairment Comvita's reported NPAT loss is -$77.4M.

Non-cash impairment & one-off non-recurring costs
The identified impairments included -$3.4M in fixed assets, -$43M in intangible assets $13.4M in investments and $4.4M Medibee impairment leading to a total non-cash impairment of -$64.2M (-$60.5M after tax).

In addition, during the year, the company incurred one-off, non-recurring costs of $7.6M (after tax). Included within this were, ERP implementation costs of $5.2M, NBIO costs and restructuring costs of $2.2M, and was offset by benefits from the Makino sale, insurance proceeds and HoneyWorld™ contingency consideration release of $3.5M in total, with other one-off negative tax impacts of $3.7M.

Net Debt and banking update
Our bank debt is shown as current in our financial statements, as at 30 June 2024, as we subsequently identified that we had breached a bank covenant tested by reference to EBITDA at 30 June 2024. As part of our year-end process, when we identified the possibility that the covenant may have been breached at the testing date, we obtained a waiver confirming that no action will be taken for that breach from our banking syndicate. We are currently in discussions to agree a covenant structure for FY25 that will be acceptable to both the bank syndicate and the Company. The bank syndicate continue to confirm their ongoing support for the Company. The revised bank covenant structure is expected to be confirmed in September.

MARKET SEGMENTS
Greater China and North America
FY24 sales in Greater China were $89.8m, down $19.2M or 17.6% on FY23 ($109m). Sales were impacted by the cancellation of 12:12 shopping festival, in December 2023, and 6:18 shopping festival in June, 2024, as well as generally lower honey sales due to macro-economic challenges. Gross profit in this market was down $15.3M (-210 bps) due to the sales miss. The China market's net contribution for FY24 was $17.2M, down 35.9% ($9.6M) due to high fixed cost model.

North American sales were $26.1M for the full year, down $9.5M or 26.6% (FY23: $35.6M). The loss of some distribution with one major customer had a significant impact. Excluding that customer loss, offline revenue was up 19%. Online revenue was 49% of total sales for FY24, up 7% on FY23. Direct margin was up 130 bps due to channel share. As with China, the sales miss meant gross profit in North America was lower, down $5.3M (-160bps). This market's net contribution at $4.7M was down $4.2M or -47.5%.

Rest of Asia & Australia and New Zealand
Rest of Asia sales were $37.1M for FY24, up $5.3m or 16.6% (FY23: $31.8M), inclusive of Singapore sales up $7.9M vs PCP. Net contribution of $2.7M (FY23: $8.3M) was down $5.5M or 66.9% due to high fixed cost model and low price competition, resulting in a percentage net contribution of 7.4% (FY23: 26.1%).

Australia and New Zealand sales were down 10.8% to $36.4M (FY23: $40.8M) primarily due to weak cross border sales to China market. The revenue reduction meant that net contribution reduced in line with sales. Percentage net contribution was flat year on year at 28.3% (FY23: 28.4%), contributing $10.3M (FY23: $11.6M).

Aggressive price competition
Comvita experienced aggressive and potentially unsustainable price competition in all markets, primarily aimed at its entry point product range. This activity caused by a glut in supply meant that market share was directly impacted in its Greater China and Rest of Asia segments.

Supply and demand
The Mānuka honey industry experienced significant growth between 2008 and 2020, with hive numbers trebling, to peak at c1M hives in 2019. This created significant oversupply to the market, which coupled with declining exports and Comvita's growing market share meant that many beekeepers exited the category, with production down 56% between 2020 and 2023. The current economics of an apiary operation are unsustainable in the long run. It's currently estimated that there are c500K hives in New Zealand (half the 2019 number). This contraction in supply will see a return to supply and demand equilibrium with associated economics in the near term. Comvita is well placed for long-term supply through its forest programme that is already productive.

Long term demand
Global Total Addressable Market (TAM) for honey is forecast to grow by 6.5% CAGR to 2030. Google searches for Mānuka honey continue to increase as consumers seek natural health and wellness products. Comvita science positions the company well to capitalise on this opportunity.

Outlook
Comvita's emphasis in FY25 is on cost reduction, positive operating cashflow and debt reduction. Commercially the business will target value seeking consumers with new entry point ranges, though continuing with premiumisation of its most efficacious products and further elevation of its brand through high profile partnerships throughout Asia. In addition, Comvita will launch incremental regional new product development designed to target different usage occasions and meet specific market or regional needs.

Commenting Brett Hewlett, Chair stated "While we initially appeared to be navigating this fall off the peak, the full impact of the global economic slowdown, aggressive price competition and a significant sales decline in China hit home in H2 FY24. This has been a challenging time for the company."

"This has caused us to take urgent action to right-size the company, and to de-risk, without compromising our long-term potential so we can respond positively as market conditions stabilise," he said. "While market conditions remain difficult we are continuing to efficiently build our brand, our product offers and our market position to sustain long-term value in a market that remains promising through to 2030 and beyond."

Comvita recently announced its $10-$15M annualised cost out programme targeting $5-8M of cost of sale reductions and $5-$7M of opex savings. This programme is on track and is designed to increase agility in the Comvita business model between economic cycles. Comvita will also focus on reducing debt through inventory sell down and targeted cashflow initiatives.

Comvita is not providing guidance at this time but will update the market on trading performance at its Annual Shareholder Meeting in October.

The company recently announced several changes to board and management which will take effect on August 31, 2024.

Brett Hewlett
Chair

David Banfield
CEO

* EBITDA is a non-GAAP financial measure calculated as Earnings before Interest, Tax, Depreciation and Amortisation and does not have a standardised meaning prescribed by GAAP.

** Underlying EBITDA and NPAT are also non-GAAP financial measures under which EBITDA and NPAT are adjusted for one-off matters including non-cash impairment & one off non-recurring costs. An overview of the adjustments made to reach underlying EBITDA is set out on page 8 of the corrected Investor Presentation.

ENDS.

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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 550+ 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 scientific knowledge on Mānuka trees, the many benefits of Mānuka honey and propolis and bee welfare. We have planted millions of native trees, improving our natural ecosystems and biodiversity, and mitigating climate change in conjunction with our focus on carbon emissions reduction, while helping ensure the supply of high quality Mānuka honey. 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.