24 August 2020

Comvita transformation driving earnings improvements

Headlines

Reported EBITDA $4.2M turnaround of the first half loss of ($8.8M)
Second half EBITDA of $13M
Underlying full year EBITDA* of $19.1M
Reported NPAT ($9.7M) with ($9.3M) impact of one off non-operating items
Record revenue of $196M +14.5% versus FY19
Net debt reduced to $15.5M versus $89M FY19
China and North America (focus growth markets) deliver very strong double-digit top and bottom line performance
Transformation of organisation structure complete with costs accounted for in FY20
$15M transformation programme on track

Comvita (NZX:CVT) today released its full year audited results for the year ending 30 June 2020, reporting a full year EBITDA profit of $4.2M turning around a first half loss of ($8.8M). The second half EBITDA of $13M was particularly encouraging with strong performance delivered in its focus growth markets of China and North America.

Reported NPAT showed a loss of ($9.7M) as Comvita continued its strategy to simplify and focus the business. This review has now concluded and as such, in this period there was a one-off ($9.3M) impact of non-operating items.

When allowing for the negative impact of one-off non-operating items and one-off costs underlying EBITDA increased by $19.1M, an improvement of $19.1M year on year, with 3.8%, like for like revenue growth (despite a $11M negative Covid-19 headwind in Australia and New Zealand), a 1170 basis point improvement in gross margin (12ppts) and a $1.9M reduction in operating expense. Second half underlying EBITDA performance was particularly strong at $18.4M.

Revenue increased to a record $196M improved by 14.5% on the PCP** with the newly integrated China market recording revenue growth (like for like) of 10.9% and an improvement in net contribution of 60% despite increasing marketing investment by $1.9M. Similarly, Comvita recorded very strong growth in North America with revenue growth of 66% and net contribution growth of 196% again despite increasing long term marketing investment.

In order to increase organisational resilience and strengthen its balance sheet, Comvita completed a $50M gross capital raise in June 2020 with strong support from both retail and institutional investors. Net debt finished the year at $15.5M as a result of the capital raise and due to good internal management of cashflows and working capital (inventory reduced by $19.5M versus June 2019).

Brett Hewlett Chair commented "I am greatly encouraged by the turnaround we are seeing in our performance. We have made significant changes to the business to set ourselves up for long term profitable growth and have seen this start to materialise in bottom line improvements in the second half. As I stated at our Annual Shareholder Meeting in October, the Board and management team are totally focused on delivering the

long term potential that we know Comvita offers. David and his new leadership team have worked tirelessly to reset and transform the business and are now totally focused on delivering a rebound in FY21 while setting us up for longer term success."

Group CEO David Banfield added, "I am so proud of the way the team has responded to the many changes and challenges that have presented themselves since I started back in January. The whole team stepped up when Comvita needed them and helped to deliver the strong second half performance that we release today. Our Apiary, Olive, manufacturing, logistics and quality teams excelled when many of us were working from home, delivering record productivity and quality and our in-market teams kept supplying our loyal consumers around the world. In addition, with organisational changes throughout the company I can only marvel at the way individual people whose roles were affected reacted. Having made these tough decisions, it's now our role to deliver strong performance in FY21 and beyond."

$15M transformation plan on track
Comvita announced its $15M transformation plan to the market in February and is pleased to report very strong progress so far delivering a 11.7ppts improvement in gross margin versus FY19 and a 6ppts improvement since December. Comvita expects to see a further improvement of 150basis points in gross margin by the end of FY21 as productivity improvements continue. In addition, Comvita has reduced underlying fixed costs by $1.9M as at the end of FY20 and expects an additional $2.5M benefit in FY21.

Building a Better Business
– Stabilise results, transform the organisation and deliver long term resilience and growth

During the capital raise Comvita shared its three-part plan to stabilise results, transform the organisation and build long term resilience and growth. Good progress has been delivered on these goals in the second half and we are pleased to provide an update.

Stabilise results
During FY20 Comvita faced material challenges to its performance in New Zealand and Australia as a result of its airport, retail and daigou business being disrupted by Covid-19, this created an $11M impact on revenue and associated margin in AU/NZ in the second half (included in these results). Extra effort and long-term emphasis are now being placed to ensure Comvita's world leading honey (Mānuka and others) are available for consumption by discerning consumers in its home markets with the aim of being number one or two brand in New Zealand.

Comvita delivered double digit growth in Japan, Korea, South East Asia, CBEC and EMEA in addition to the strong performance delivered in North America and China. Margin performance was particularly encouraging with Comvita delivering its highest % gross margin in over six years. Comvita also commenced the work to reduce its SKU count by 30% (200 products) again helping to free up cash and paydown debt. Comvita continued to focus on getting fundamentals right with extra emphasis on demand planning and working capital management, net debt finished the year at $15.5M a reduction of $73.5M year on year with inventory reduced from $132M to $113M as these process improvements delivered. Longer term Comvita has an inventory target of $70M as it moves towards its zero long term debt target. In H2 FY20 Comvita reported six consecutive profitable months.

Transformed organisation
Comvita completed its organisation changes by 30 June, removing management layers, simplifying structures and increasing speed of decision making and action throughout the organisation while delivering a significant reduction in headcount (90 positions). Significant work was completed to clarify roles and responsibilities between Markets and Paengaroa (Market Support Centre), removing back office duplication throughout the organisation without impacting customer facing roles. In addition, Comvita completed its new leadership team structure with only one role left to fill. Finally, Comvita developed its new honey harvest model reducing risk in FY21, ensuring break even in the event of a poor harvest but still able to generate upside benefits in good harvest periods.

Comvita also completed its strategic review of joint ventures and partnerships outside core operations. This strategy to simplify the business and write down underperforming or overvalued assets resulted in a write down of $9.3M within these results.

Long term resilience and growth
Comvita designated its China and US markets as its focus growth markets for the next five years and has seen excellent performance in each. In China (excluding Hong Kong) Comvita delivered 10.9% top line growth and was again number one brand in the crucial 11/11, 12/12 and 618 periods. Comvita continued its focus on long term growth by investing an extra $1.9M in marketing over this period. Despite this increased marketing investment Comvita generated good operating leverage and delivered a 60% increase in net contribution.

Comvita also performed strongly in North America with revenue growth of 66% and bottom line growth of 196% with online sales growing by 44%. Distribution was increased by 1000 stores in FY20 as new national distribution came online. In addition, we have agreed a further extension with 1500+ new distribution points with one major outlet commencing in Q1 FY21. Marketing investment was increased again as we focused on delivering sell through and long term growth in North America.

A key part of building long term resilience and growth was the recapitalisation of the business and agreement of new terms with our banking partner Westpac, both of which were completed in June 2020. The raise was strongly supported by existing shareholders and institutions. The proceeds raised were used to pay down debt and ensure that the business sole focus is on delivery of results through FY21 and beyond.

Finally, a considerable amount of work was completed on the Comvita five-year plan with an emphasis on profitable growth and delivering a clear path to the 2025 target of 20% EBITDA as a key foundation for Building a Better Business at Comvita.

David Banfield Group CEO added “The new leadership team and I are totally focused on delivering a rebound in performance in FY21 and to creating the foundations for longer term success. There is much we still need to do to realise the true potential of Comvita, but we are absolutely committed to pay back the support shown by the extended Comvita whānau and our shareholders. We look forward to updating shareholders of further progress at our Annual Shareholder Meeting on the 22 October 2020.

David Banfield   Brett Hewlett

On behalf of the Board of Directors

For further information
Comvita CEO, David Banfield, 021 041 5630

Background information

About Comvita (www.comvita.co.nz)

Comvita (NZX:CVT) was founded in 1974 and is the pioneer and global market leader of the Mānuka honey category. Comvita is committed to the long term development of Mānuka and Bee products backed by unrivalled scientific knowhow. Comvita recently announced its sponsorship of the NZ pavilion at the World Expo in Dubai focusing on Kaitiakitanga (guardianship and protection of the planet).

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

**Previous corresponding period