



INVESTOR PRESENTATION

HALF YEAR RESULT FY20 | 27 FEBRUARY 2020

Presented by: David Banfield, CEO | Brett Hewlett, Chair



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Information in this presentation:

- Should be read in conjunction with, and is subject to, Comvita Annual Reports, Interim Reports and market releases on NZX;
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All currency amounts are in New Zealand dollars, unless otherwise stated.



AGENDA

1. Introductions
2. Interim Results FY20
3. Cashflow, Inventory and Net Debt
4. Honey Harvest Update
5. Market Segment Performance
6. Key Findings & Turnaround Plan
7. Q&A



A close-up photograph of a branch with several small, five-petaled pink flowers. The flowers have prominent stamens and are set against a soft, out-of-focus background of green foliage and a warm, golden light, suggesting a sunrise or sunset. The text 'INTRODUCTIONS' is centered in the upper half of the image.

INTRODUCTIONS

CORONAVIRUS

We are closely monitoring the evolving situation with the Coronavirus in China and around the world. Our first thought is for our Comvita team and all those that have been affected.

We have instigated a dedicated team to monitor best practice and ensure we are doing everything possible to support the team. Foremost, this includes regular contact with our employees and business partners, to ensure all practicable precautions continue to be taken from a safety and wellbeing perspective.





INTERIM RESULTS
FY20



HEADLINES

- Reported NPAT -\$(12.97)m
- Non-operating items - \$5.8m including \$2.3m impairment of Australian joint venture due to bush fires
- Underlying EBITDA* +\$1.3m +32.5%
- Revenue +20.7% primarily due to China market integration
- China and North America show opportunities for profitable growth
 - China earnings +30% on a like-for-like basis
- \$15m business transformation plan targeting
 - 500 basis points (bps) improvement in gross margin per annum
 - \$5m cost reduction per annum
 - Business simplification underway
- Capital raise to deleverage balance sheet including rights offer
- Directors declared that no interim dividend will be paid

*Underlying EBITDA is a non-GAAP measure. We monitor this as a key performance indicator and believe it assists investors in assessing the performance of the core operations of our business.

HALF YEAR IN REVIEW

- **NET PROFIT AFTER TAX**
\$(12.97)m
- **NON-OPERATING EBITDA ITEMS**
\$(6.7)m vs \$0.7m in PCP*
- **ONE-OFF EBITDA ITEMS**
\$3.4m vs \$0.4m in PCP
- **UNDERLYING EBITDA****
+\$1.3m vs +\$1.0m +32.5% vs PCP
- **GROUP REVENUE**
\$94m + 20.7% vs PCP
- **CHINA MARKET – EARNINGS GROWTH**
+30%
- **INVENTORY**
-\$2.9m vs PCP
-\$16.0m vs June close
- **NET DEBT**
\$93.2m -11.4% vs PCP
- **POSITIVE OPERATING CASHFLOW**
+\$887k

* Previous comparable period.

**Underlying EBITDA is a non-GAAP measure. We monitor this as a key performance indicator and believe it assists investors in assessing the performance of the core operations of our business.



UNDERLYING RESULT RECONCILIATION

		31 Dec 2019 NPAT \$'000	31 Dec 2019 EBITDA \$'000	31 Dec 2018 NPAT \$'000	31 Dec 2018 EBITDA \$'000
	Note				
Per financial statements		(12,970)	(8,829)	(2,678)	1,325
<u>Add back non-operating items:</u>					
Comvita China - release of inventory fair value	A	2,674	3,567		
Impairment of equity accounted investment		2,310	2,310		
Equity accounted investees on wind up and loan write off	B	669	669		
Fair value movements - SeaDragon	C	154	154	(724)	(724)
Fair value movements – biological assets	D	52	72		
Other		(20)	(20)		
Total adjustments		5,839	6,752	(724)	(724)
Operating result		(7,131)	(2,077)	(3,402)	601
<u>One off costs incurred vs PCP:</u>					
Inventory write downs		1,300	1,806		
Divestment of Nelson site		360	500		
Restructuring related costs		700	970	295	410
Savings from restructure		505	700		
Other increases		(395)	(560)		
Total adjustments		2,470	3,416	295	410
Underlying result		(4,661)	1,339	(3,107)	1,011

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



CASHFLOW, INVENTORY & NET DEBT

CASHFLOW

Cash flow movements	31 Dec 2019 <i>unaudited</i>	31 Dec 2018 <i>unaudited</i>	Movement
Operating cash inflow	887	6,337	(5,450)
Investing activities	(3,030)	(17,911)	14,881
Financing activities	2,243	14,632	(12,389)
Cash and cash equivalents	10,199	8,026	2,173

- Operating cash inflow \$887k
- Operating cashflow consistent with operating loss for 6 months to 31 December 2019 less working capital improvements including inventory reduction of \$16m
- Prior period operating cashflow had one-off timing inflow of debtors overdue at prior period end
- Investing cashflow is lower than prior period from minimal capital expenditure



INVENTORY & NET DEBT

Key Balance Sheet Ratios as at	31 Dec 2019 <i>unaudited</i> \$'000	31 Dec 2018 <i>unaudited</i> \$'000	30 June 2019 <i>audited</i> \$'000
Total assets	303,970	326,971	310,043
Total inventory	116,139	119,040	132,192
Trade receivables	28,913	40,771	30,878
Working capital	142,944	164,576	155,161
Net debt	93,151	103,764	88,936
Total equity	160,624	187,006	173,355
Net debt to equity ratio	58%	55%	51%
Weighted average shares on issue	49,552	45,337	46,302

- Inventory reduced by \$2.9m vs 31 December 2018 and \$16.0m vs 30 June 2019
- Finished goods reduction across all major markets
- Net debt decrease of \$10.6m vs 31 December 2018 due to working capital movements and an increase of \$4.2m vs 30 June 2019 due to net cash outflow primarily from investing activities
- Banking facility extended to 2021





HONEY HARVEST UPDATE



HONEY CROP 2020

Early national crop indicators are positive

- Strong settled summer after a volatile spring
- Good flowering and nectar flow reported across the country
- Mānuka harvest underway
- Early quality results promising

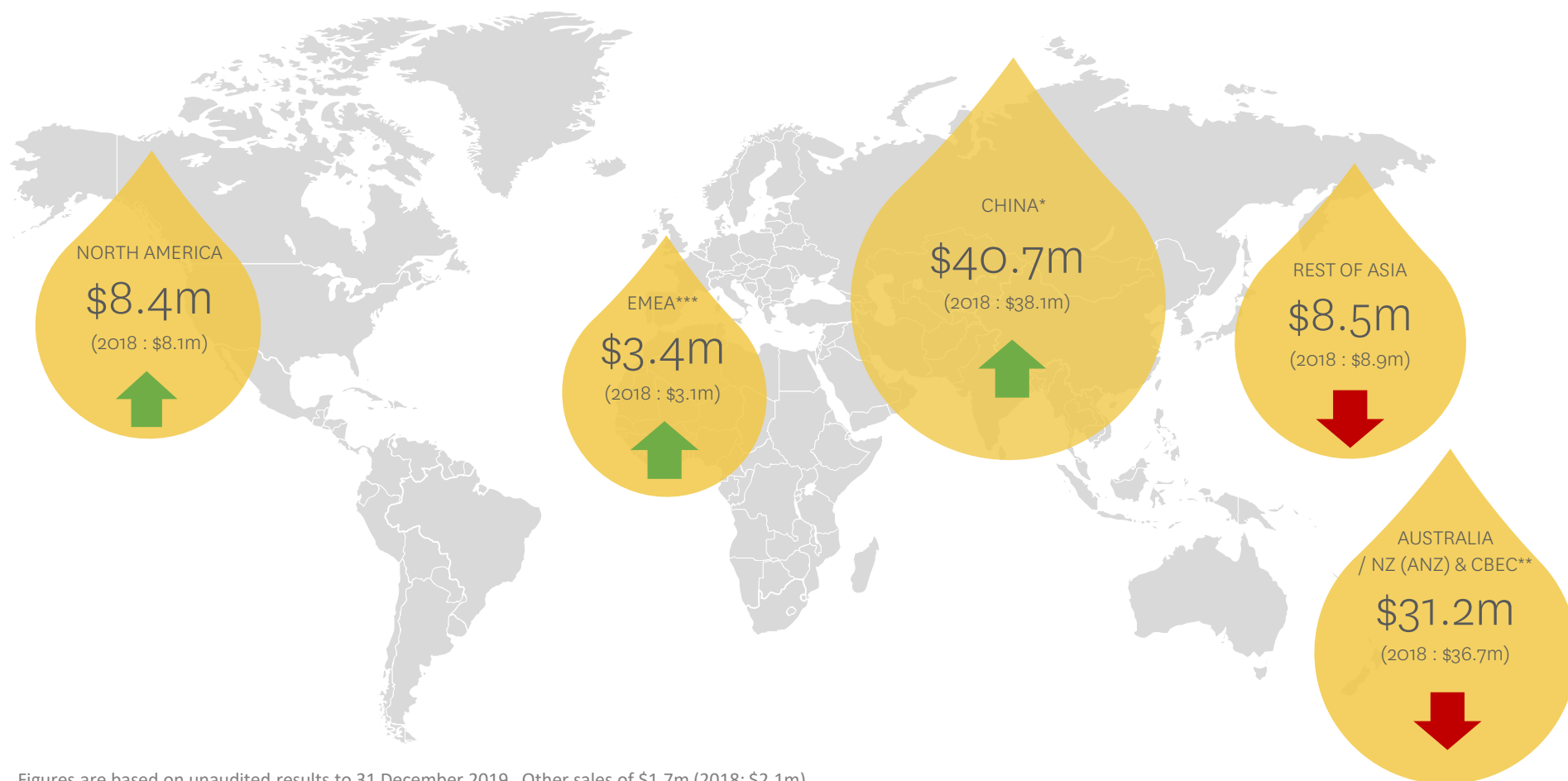
Comvita crop forecasted to exceed budget and prior year

- Mānuka harvest underway - 50% harvested and 25% tested
- Expect to exceed 2019 actuals and 2020 plans
- All extraction plants operating at capacity
- Hives re-queened with improved genetics
- New queen breeding facility performing well, breeder queens introduced to the network



MARKET SEGMENT PERFORMANCE

SALES FOR THE HALF YEAR ENDED 31 DECEMBER 2019



Figures are based on unaudited results to 31 December 2019. Other sales of \$1.7m (2018: \$2.1m).

* China sales include Hong Kong. To enable comparison, the 2018 sales includes the in-market sales of the China Joint Venture (JV) which were not included in Comvita group revenue

** Cross Border E-commerce

*** Europe, Middle East and Africa



CHINA (LIKE - FOR - LIKE PERFORMANCE)

NZD (\$'000)	6 months Dec-2019	6 months Dec-2018	Variance Fav/(Unfav)	Variance %
Sales	29,669	25,842	3,827	15%
Net Contribution	3,744	2,886	858	30%
<i>Net Contribution %</i>	12.6%	11.2%		

First full six month period of China integration

- Like-for-like revenue in China +15%
- \$1m incremental investment in marketing activity
- China contribution +30%

Net Contribution is a non-GAAP measure. We monitor this as a key performance indicator and believe it assists investors in assessing the performance of the core operations of our business.





CHINA including HONG KONG

NZD (\$'000)	6 months Dec-2019	6 months Dec-2018	Variance Fav/(Unfav)	Variance %
Sales	40,664	18,908	21,756	115%
Net Contribution	4,390	1,685	2,704	160%
<i>Net Contribution %</i>	11%	9%		2%

- Total revenue plus 115% due to consolidation of China subsidiary
- Net contribution +160% due to consolidation of China subsidiary
- Hong Kong performance negatively impacted by unrest
 - Hong Kong contribution -30%



IMPACT OF CORONAVIRUS ON PERFORMANCE

General

- Propolis and Mānuka honey (over 90% of revenue) have known anti-viral, anti-microbial and immunity benefits, we are pleased to be part of a solution to help our consumers build general immunity
- Where footfall is unaffected by the Coronavirus, revenue +35% vs PCP
- In China, footfall is significantly reduced in offline outlets
- Once footfall recovers, sales growth is expected to perform at +30%
- Where online providers are operating normally, sales have increased by 38%
- Currently forecasting a 10% revenue impact on our second half performance in China
- In ANZ, footfall through key tourist dominant partners is materially reduced along with daigou channels who are unable to supply their in-market customers (outside ANZ)
- We are forecasting a second half revenue impact of up to 20% in ANZ
- Good inventory levels in-market. Boosting local inventory to meet anticipated inflated demand
- We believe any impacts to our business are short-term related and as soon as footfall returns our performance will show material improvement
- Naturally it is an evolving situation and we will update the market as new information emerges



REST OF ASIA

NZD (\$'000)	6 months Dec-2019	6 months Dec-2018	Variance Fav/(Unfav)	Variance %
Sales	8,497	8,880	(383)	-4%
Net Contribution	1,495	1,305	190	15%
<i>Net Contribution %</i>	18%	15%		3%

Revenue -4% due to timing of activity in Japan

- Strong double digit sales growth in Korea
- First flagship store launched in Malaysia

Contribution +15% due to emphasis on profitable growth



ANZ & CBEC

NZD (\$'000)	6 months Dec-2019	6 months Dec-2018	Variance Fav/(Unfav)	Variance %
Sales	31,182	36,721	(5,539)	-15%
Net Contribution	8,565	9,937	(1,372)	-14%
<i>Net Contribution %</i>	27%	27%		0%

New Zealand export changes

- Changes to MPI small parcel export requirements impacted revenue by -\$2.7m on last year, however, work between the industry and MPI has sales being exported once again though not expected to recover the loss in this year

Australian customer overstock in PCP

- Revenue -\$4.3m on last year due to a customer purchasing 10 months stock artificially inflating sales in PCP; the customer has now cleared the stock and orders are coming back to normal



NORTH AMERICA

NZD (\$'000)	6 months Dec-2019	6 months Dec-2018	Variance Fav/(Unfav)	Variance %
Sales	8,414	8,053	361	4.5%
Net Contribution	957	1,178	(221)	(18.7%)
<i>Net Contribution %</i>	11%	15%		(3.3%)

- Revenue +4.5% with good performance across major customers
- Contribution margin impacted by customer set up costs
- Comvita.com shows market potential with Black Friday period sales +51% year-on-year, in which half the sales came from new customers
- Launched new Comvita Kids line in Whole Foods nationally in September, supported by a successful PR campaign gaining awareness with natural food focused parents
- New listings in several hundred new independent and regional natural health accounts





EUROPE, MIDDLE EAST AND AFRICA (EMEA)

NZD (\$'000)	6 months Dec-2019	6 months Dec-2018	Variance Fav/(Unfav)	Variance %
Sales	3,444	3,127	317	10%
Net Contribution	(909)	(279)	(630)	226%
<i>Net Contribution %</i>	-26%	-9%		-17%

- Revenue +10% vs PCP
- Contribution -\$630K due to clearance of slow moving and obsolete stock
- New distribution to come online in second half of the year supporting double digit growth



KEY FINDINGS AND TURNAROUND PLAN



KEY FINDINGS

- Market leader in Mānuka and key bee products categories
- Technical leader in Mānuka
- Quality leader in honey and propolis
- Role as category guardian
- Highly relevant to current macro economic and megatrends
- Highly capable and committed team members





KEY FINDINGS

- Loss of focus, complicated business
- Organisation disconnected from market needs and slow to react
- Unsustainable costs
 - COGS
 - OPEX
- Elevated gearing covered by saleable inventory but key processes inefficient





AROTAH I (FOCUS)

- Focus on key growth markets – China and North America
 - Total addressable market US\$1.5 bn
- Profitable growth ANZ and all other regions
- \$15m business transformation
 - Simplified and integrated operations
- Capital structure supporting growth





SIZE OF PRIZE – CHINA

- Total addressable market US\$1.2 bn
- Imported honey 12.5% of total
- Double digit CAGR forecasted
- Mānuka / imported forecast to over index
- Key attribute – Trust and heritage

Comvita in China

- Comvita is the market leader in China
- Significant brand equity
- Experienced team in-market
- Focus on delivering model city performance in China - \$500m
 - Modelling market potential on a per capita basis
- Full integration of former JV to be completed
- Investment in brand and capability



SIZE OF PRIZE – NORTH AMERICA

- Total addressable market US\$340m
- Current imported honey market circa 30% - US\$102m
- High single figure CAGR expected over the next five years
- Strong adoption by millennials and rapidly expanding availability through online and mass retail

Comvita in North America

- Encouraging performance across major customers
- Black Friday results show the potential to significantly grow overall business
- New distribution agreements in place
- Disruptive market leading D2C
- Geographical balance to group (Asia / North America)

Comvita in ANZ

- Our home market where we need to protect leadership
- Stabilise revenue and associated earnings
- Investment in brand equity
- Organisation simplification





ACTIONS – AROTAHI (FOCUS)

\$15m transformation programme launched

Goals

- 500 bps improvement in gross margin per annum
- \$5m reduction in fixed costs per annum
- Automation and integration of key internal processes to improve efficiency, scalability and accuracy
- Simplification of operating companies and investment – Supply and Brand side





CAPITAL RAISE

- In order to reduce risk and build resilience for the company during strategic reset and business transformation programme, Comvita plans to recapitalise the business
- This will include a renounceable rights issue to existing shareholders
- Details will be announced in the coming weeks
- Craigs Investment Partners and Forsyth Barr have been appointed as joint lead managers





QUESTIONS AND ANSWERS

THANK YOU

