



Building a Better Business

FULL YEAR RESULT FY20 | 24 AUGUST 2020

Presented by: David Banfield, CEO | Adrian Barr, Acting CFO

IMPORTANT NOTICE

This presentation is given on behalf of Comvita Limited.

Information in this presentation:

- Should be read in conjunction with, and is subject to, Comvita Annual Reports, Interim Reports and market releases on NZX;
- Is from the Audited Annual results for the year ended 30th June 2020;
- Includes non-GAAP financial measures such as Underlying EBITDA and Operating Net Profit after tax. These measures do not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. They should not be used in substitution for, or isolation of, Comvita's audited financial statements. We monitor these non-GAAP measures as key performance indicators and we believe it assists investors in assessing the performance of the core operations of our business.
- May contain projections or forward-looking statements about Comvita. Such forward-looking statements are based on current expectations and involve risks and uncertainties. Comvita's actual results or performance may differ materially from these statements;
- Includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance;
- Is for general information purposes only, and does not constitute investment advice; and
- Is current at the date of this presentation, unless otherwise stated.

While all reasonable care has been taken in compiling this presentation, Comvita accepts no responsibility for any errors or omissions.

All currency amounts are in New Zealand dollars, unless otherwise stated.



AGENDA

- Covid-19 impact on business FY20
- Full Year Results FY20
- Cashflow, Inventory and Net Debt
- Honey Harvest FY20
- Market Segment Performance
- Non-Operating Impacts Review
- Building a Better Business
- Q&A

IMPACT OF CORONAVIRUS ON PERFORMANCE

Summary

- Positive trading during the Covid-19 period as consumers look to purchase natural health products

Positive impacts

- **China, Asia, CBEC, North America and EMEA revenue growth year on year = \$20M**
- Double digit growth North America, China, CBEC, Japan, Korea, SEA and EMEA
 - Temporary Covid-19 impact retail in China -\$3.4M in H2 offset by strong online growth
 - Retail in China has now normalised
- North America
 - Strong digital performance improvement +45%
 - Strong retail sales +88%
 - Positive Covid-19 stock fill \$2.6M

Negative impacts

- **AU/NZ and Hong Kong revenue decline = \$12M**
- Business materially impacted by loss of footfall in tourism, retail and daigou channels
 - Mānuka honey sales impacted by daigou and tourism
 - H2 revenue impact AU/NZ \$11m
 - HK predominantly retail business impacted by civil unrest and loss of tourism expected to continue -\$3M (\$1M Covid-19)
 - Propolis and Fresh Picked Olive Leaf™ performed well

General conditions

- Good inventory levels in-market. Boosting local inventory to meet ongoing anticipated inflated demand

BUILDING A BETTER BUSINESS

*Turnaround and
transformation on track as
Comvita delivers strong second
half performance*



FULL YEAR RESULTS FY20





HEADLINES

- Revenue growth 14.5%
- Strong top and bottom line growth in **focus growth markets**
- China +11% sales, +60% contribution
 - North America +66% sales, +196% contribution
- Full year EBITDA \$4.2M
- Year-end underlying EBITDA* +\$19.1M
 - H2 +\$18.4M
- NPAT (\$9.7M)
 - Impact of one off non-operating items (\$9.3M)
- Year-end Net Debt \$15.5M versus \$93M in December
 - \$50M capital raise completed in June
 - \$27.5m cash generated to pay down debt
- No dividend payable in FY20
- Significant simplification of total organisation
 - Organisation restructure complete (costs in FY20)
 - Headcount reduction from 630 to 540
- Reduction of risk
 - Capital structure reset
 - Low risk honey harvest model implemented
 - New bank facilities agreed to June 2022

*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.



HEADLINES

	H1	H2	Full Year
• EBITDA	\$(8.8)M	\$13.0M	\$4.2M
• Underlying EBITDA*	\$0.6M	\$18.4M	\$19.1M
• Revenue	\$94M	\$102M	\$196M
• Net Debt (OB \$88.9M)	+\$4.2M	-\$77.6M	\$15.5M
• China and North America strong growth (like for like)			
• China market contribution margin +60%			
• US contribution margin +196%			
• \$15m business transformation plan <u>on target</u>			
• Business simplification plan on track			
• Team restructure complete (excluding China)			
• Leadership team in place			

*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.



YEAR IN REVIEW

	30 June 2020 \$'000	30 June 2019 \$'000
Revenue	195,912	171,104
Gross Profit	95,943	63,761
Gross Margin	49.0%	37.3%
Operating Expenses	96,398	73,548
Operating Expenses excl China	72,034	71,423
Underlying EBITDA*	19,086	0
Net Loss after tax	(9,701)	(27,717)
Net Debt	15,520	88,936
Operating Cashflow	39,297	21,086
Inventory	112,679	132,192

*Underlying EBITDA is a non-GAAP measures. 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

	H1 NPAT \$'000	H1 EBITDA \$'000	H2 NPAT \$'000	H2 EBITDA \$'000	FY20 NPAT \$'000	FY20 EBITDA \$'000
Per financial statements	(12,970)	(8,829)	3,269	13,008	(9,701)	4,179
<u>Add back non-operating items:</u>						
Comvita China - release of inventory fair value	2,674	3,567	102	319	2,776	3,886
Equity accounted investments:						
- release of deferred consideration	-	-	(1,039)	(1,039)	(1,039)	(1,039)
- impairment and provision against related loan	2,310	2,310	4,293	4,293	6,603	6,603
- wind-up and loan write-off	669	669	(101)	-	568	669
Fair value movements - SeaDragon	154	154	38	38	192	192
Fair value movements – biological assets	52	72	206	317	258	389
Other	(20)	(20)	-	-	(20)	(20)
<i>Total adjustments</i>	5,839	6,752	3,499	3,928	9,338	10,680
Operating result	(7,131)	(2,077)	6,768	16,936	(363)	14,859
<u>One off costs incurred:</u>						
Inventory write downs	1,300	1,806	-	-	1,300	1,806
Nelson site Closure	360	500	-	-	360	500
Restructuring related costs	700	970	1,093	1,511	1,793	2,481
Other increases	(395)	(560)	-	-	(395)	(560)
<i>Total adjustments</i>	1,965	2,716	1,093	1,511	3,058	4,227
Underlying result	(5,166)	639	7,861	18,447	2,695	19,086

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 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	30 June 2020	30 June 2019	Movement
Operating cash inflow	39,297	21,086	18,211
Investing activities	(9,693)	(17,704)	8,011
Financing activities	(23,271)	2,239	(25,510)
Cash and cash equivalents	16,680	10,314	6,366

- Significant improvement in operating cash inflow
- Investing cashflow is lower than prior period from focused capital expenditure
- Financing activities - repayment of bank debt in excess of capital raise proceeds by \$19M due to strong operating cashflow and focus on working capital improvements

INVENTORY & NET DEBT

Key Balance Sheet Ratios as at	30 June 2020 \$'000	30 June 2019 \$'000
Total assets	286,423	313,043
Total inventory	112,679	132,192
Trade receivables	17,726	30,878
Working capital	128,597	155,161
Net debt	15,520	88,936
Total equity	211,748	173,355
Net debt to equity ratio	7%	51%
Weighted average shares on issue	50,786	46,302

- Inventory reduced by \$20M vs 30 June 2019
- Finished goods reduction across all major markets
- Net debt decrease of \$73M vs 30 June 2019 due to successful capital raise \$50M and working capital improvements \$23M
- Banking facility extended to July 2022



HONEY
HARVEST FY20

NEW BUSINESS
MODEL FY21



HONEY HARVEST FY20

Very strong harvest

- Record crop c 700 tonnes
- Record quality of yield
 - +150% increase in >UMF 10+
- Site performance improvements
- Breeder queens improving hive yield
- Reduction in sites with high fixed cost load
- Benefit to FY20 result \$2.2m (GP)
 - Further \$4M benefit flow into FY22/3



NEW HARVEST MODEL FY21

New harvest model FY21 reduces risk

- All sites carefully selected on three criteria
 - Yield
 - Quality of yield
 - Servicing cost per hive/site

New model impact on performance

- Equivalent harvest yield to FY20 delivers > 40-50% improvement in margin contribution c680-720 tonnes
- 10% reduction in yield delivers same GP as FY20 – c600 tonnes
- Breakeven – poor harvest (average. of last two poor harvest) 410 tonnes



THE SCIENCE OF OPTIMISING HARVEST YIELDS

Improved cultivars support performance

Cultivar improvement programme since 2006

- Infield trials since 2011
- 18 trial sites across the country
- Increased flower abundance and extended flowering time
- Increased nectar quantity and quality
- ~ 80% increase in DHA activity

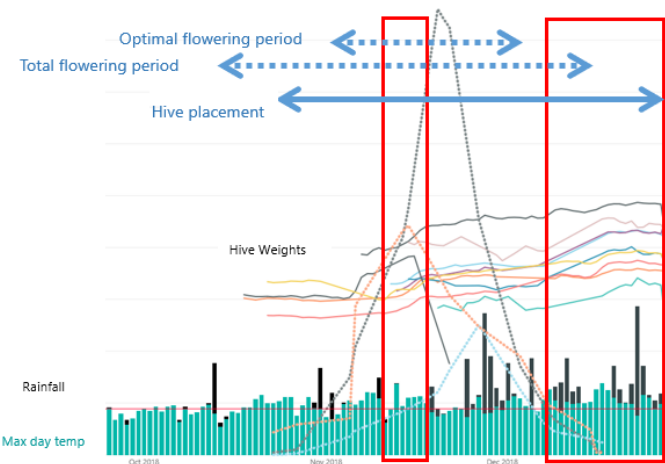
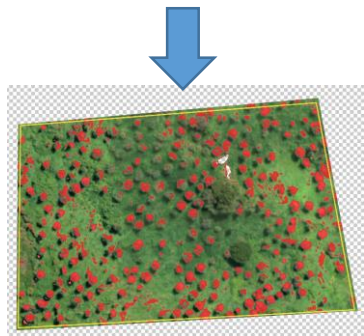
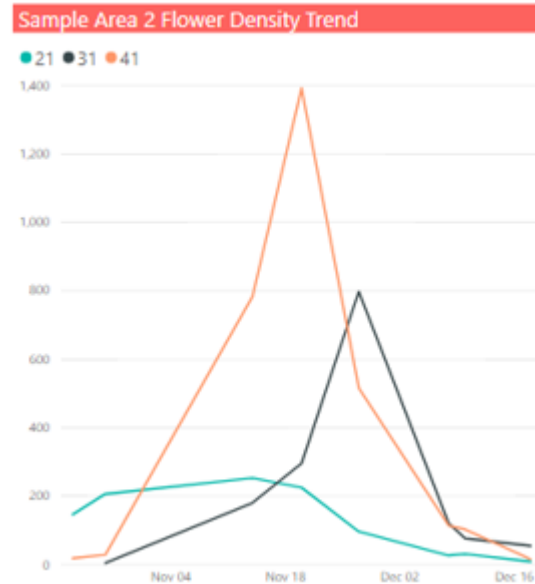
Good hive health drives yields

- Starts with strong queens
- Comvita Queen breeding unit established to improve yields and varroa resistance
- "Closed population" breeder queens selected for these traits
- Capacity to populate all Comvita hives with improved queens

THE SCIENCE OF OPTIMISING HARVEST YIELDS

Time is of the essence

- Detailed evaluation proves the benefit of optimised timing of hives placement
- Maximise target crop and avoid dilution
- Comvita drone capability to optimise timing
- Positive impact on crop value

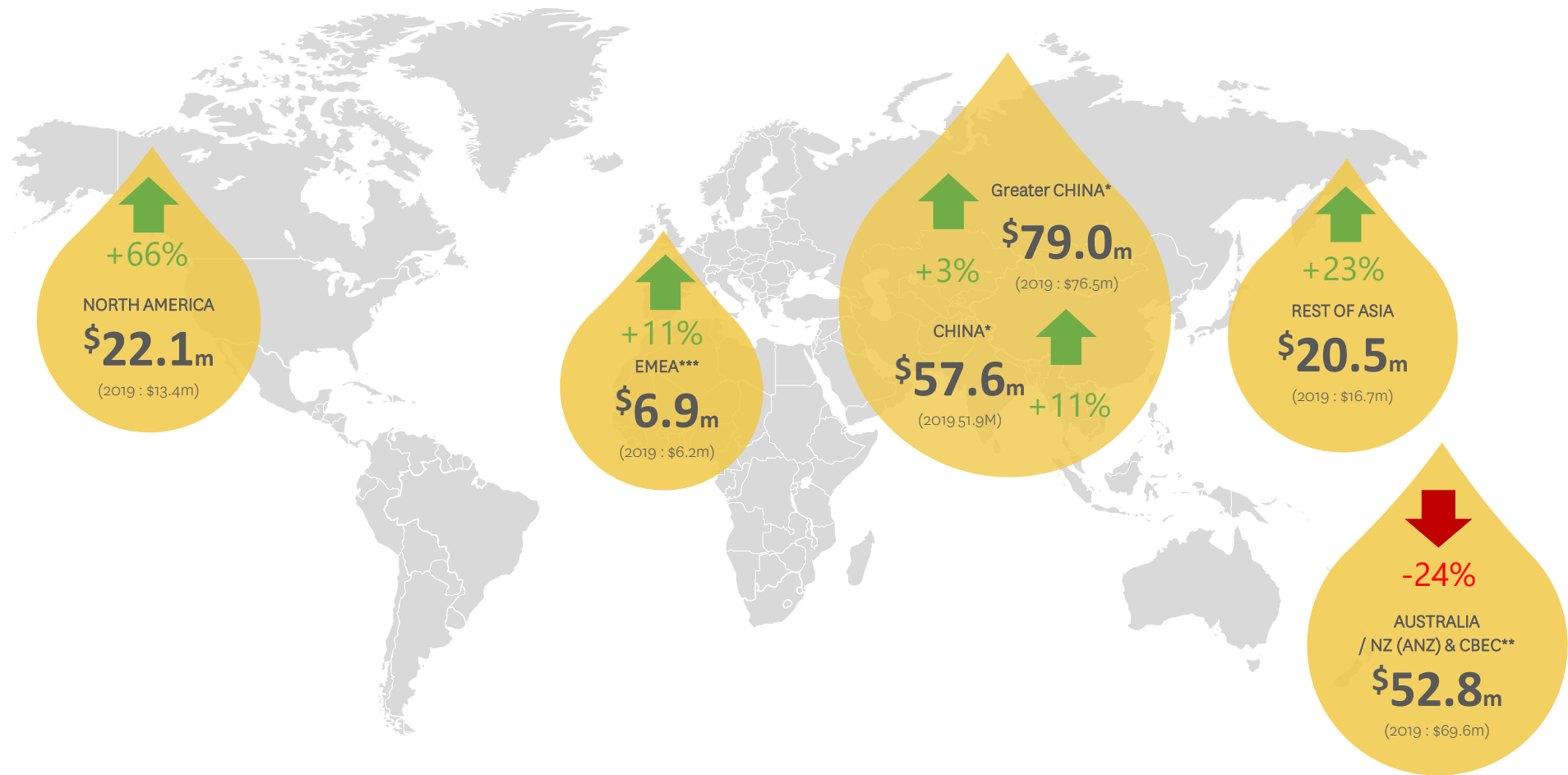




MARKET SEGMENT PERFORMANCE



REVENUE FOR THE YEAR ENDING 30 JUNE 2020



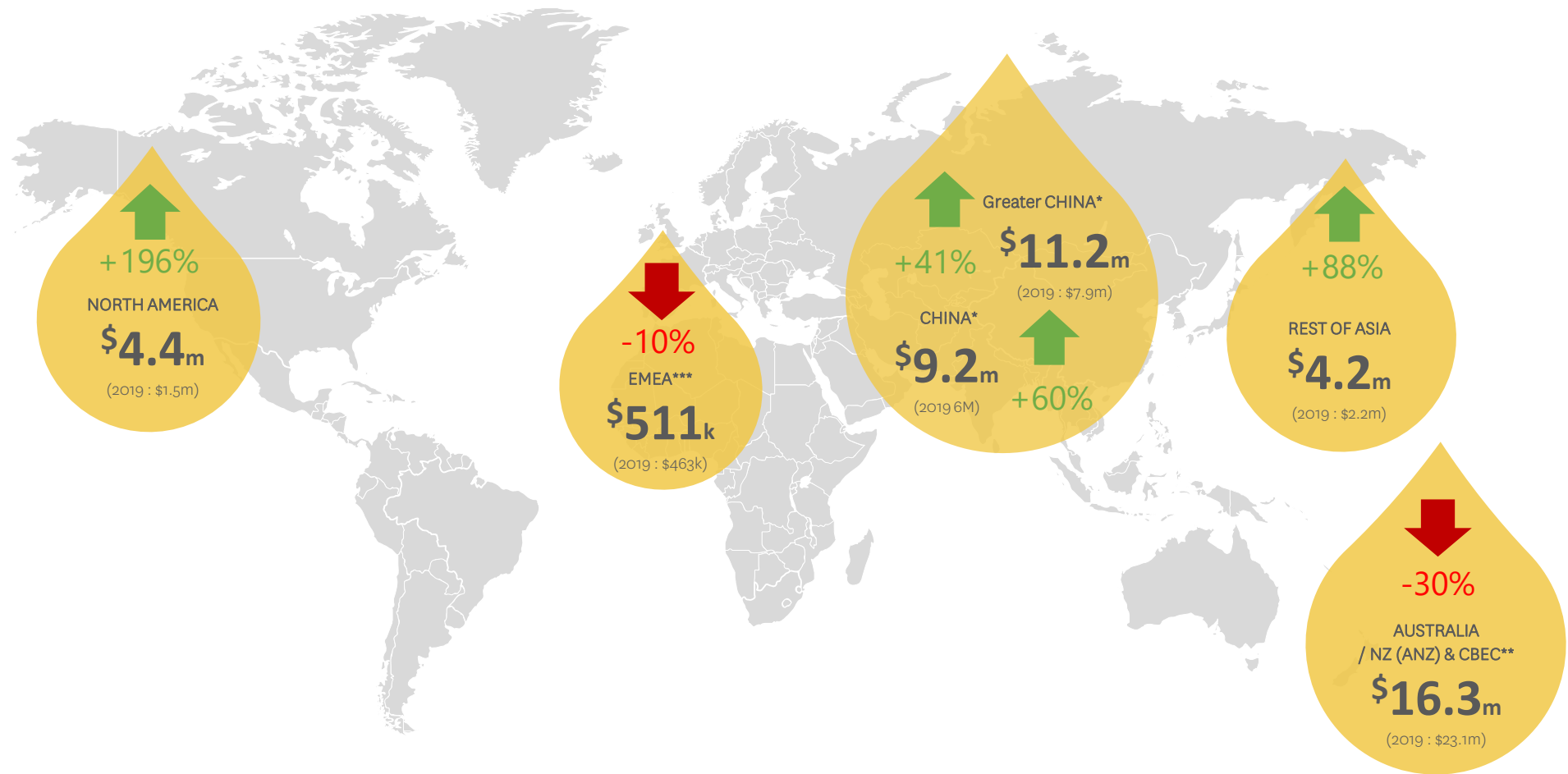
Other sales of \$14.5m (2019: \$13.8m).

* China sales include Hong Kong. To enable comparison, the 2019 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

NET CONTRIBUTION FOR THE YEAR ENDING 30 JUNE



Other contribution of \$2.3m (2019: \$1.5m).

* China sales include Hong Kong. To enable comparison, the 2019 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





NORTH AMERICA

NZD (\$'000)	June 2020	June 2019	Variance Fav/(Unfav)	Variance %
Sales	22,137	13,361	8,776	66%
Net Contribution	4,392	1,484	2,908	196%
<i>Net Contribution %</i>	20%	11%		9%

Revenue +66% with good performance across major customers

- Retail + 88%
- Digital + 44%
- New distribution achieved in 2600 stores
 - 1000 in FY20
 - 1600 for FY21
- Covid-19 increased stock holding benefit in FY20 c\$2.6M
- One off stock fill benefit of \$0.5M (new listings)
- Winner of various consumer awards

Contribution margin +196% or \$2.9M

- Strong operating leverage
- Strong growth in online channels supporting margin accretion
- Total opex investment +35%
- Net contribution to 20% reflecting operating leverage

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 (LIKE - F O R - L I K E)

NZD (\$'000)	June 2020	June 2019	Variance Fav/(Unfav)	Variance %
Sales	57,632	51,947	5,685	11%
Net Contribution	9,236	5,988	3,598	60%
<i>Net Contribution %</i>	17%	12%		5%

First full twelve-month period of China integration
Positive impact of fully integrated business

- Like-for-like revenue in China +11%
- \$1.9M incremental investment in marketing activity vs FY19
- Number one brand in China 11/11, 12/12 and 6/18
- China net contribution +60%
- Net contribution increase to 17% of sales

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.



GREATER CHINA*

(LIKE - FOR - LIKE PERFORMANCE)

NZD (\$'000)	June 2020	June 2019	Variance Fav/(Unfav)	Variance %
Sales	79,022	76,485	2,537	3%
Net Contribution	11,154	7,915	3,239	41%
<i>Net Contribution %</i>	14%	10%		4%

- Total revenue plus 54% due to consolidation of China JV
- Net contribution +119% due to consolidation of China subsidiary
- Like for like revenue +3.3%
- Like for like net contribution +41%
- Hong Kong revenue negatively impacted by unrest and Covid-19
 - Hong Kong revenue -12.8%
 - Hong Kong contribution +17.2%
 - Closure of 7 unprofitable stores out of 31



REST OF ASIA

NZD (\$'000)	June 2020	June 2019	Variance Fav/(Unfav)	Variance %
Sales	20,533	16,722	3,811	23%
Net Contribution	4,199	2,234	1,965	88%
<i>Net Contribution %</i>	20%	13%		7%

Revenue +23%

- Strong double-digit revenue growth across all markets
- Brand investment + 15%

Contribution +89% due to operating leverage

- Strong gross margins
- Discontinuation of dilutive GP categories
- Net contribution increase to 20% (+7PPTS) highlights operating leverage



A N Z

NZD (\$'000)	June 2020	June 2019	Variance Fav/(Unfav)	Variance %
Sales	52,802	69,562	(16,760)	-24%
Net Contribution	16,265	23,151	(6,886)	-30%
<i>Net Contribution %</i>	31%	33%		-2%

Total revenue – (\$16.8M) versus PCP*

- H1 impact of MPI definition change and major customer one-off purchase in PCP was expected to flow through to full year (\$5.5M)
- H2 Covid-19 impact of **\$11M**
 - Closure of retail
 - Daigou not operating effectively impacting customer stock holding
 - Footfall reduced through airports

Net contribution -30% or -\$6.9M versus PCP

- -\$1.6M from H1 impacts
- -\$5.3M from Covid-19 impacts

*prior corresponding period



EUROPE, MIDDLE EAST AND AFRICA (EMEA)

NZD (\$'000)	June 2020	June 2019	Variance Fav/(Unfav)	Variance %
Sales	6,916	6,211	705	11%
Net Contribution	(511)	(463)	(48)	-10%
<i>Net Contribution %</i>	-7%	-7%		0%

- Revenue +11% vs PCP
 - Digital sales +33%
 - New customer strong growth +28% to 10% of total
- Contribution reduced by \$48K versus PCP - still unprofitable
 - Normalised GP +1100 bps (reported result impacted by legacy stock clearance) -\$700K impact
 - \$300K airfreight impact in due to internal process error



NON-OPERATING
IMPACTS

REVIEW COMPLETED



PUTAKE

- Queen rearing and extraction business, JV since July 2016
- No strategic value to Comvita
- No trade buyer despite prolonged attempts
- Putake in process of winding up through selling assets
- Write down of investment \$3M in FY20
- Residual carrying value \$0



K A I M A N A W A

- Joint venture beekeeping operation
- Write down of investment \$669K in FY20
- Residual carrying value \$0



MEDIBEE APIARIES AUSTRALIA

- Joint venture with Capilano Australia founded in May 2016
- Australian bushfires wiped out FY20 crop
- Limited Comvita strategic value - exploring options to exit
- New business model executed to pay down bank facility
- Impairment recognised against shareholder loan FY20 \$2.3M
- Carrying value \$0



SEADRAGON

- Market leading supplier of Omega fish oils
- 17% shareholder
- Limited strategic value given Comvita renewed focus on Mānuka & Bee products
- De-listed from NZX
- Write down of carrying value FY20 \$2.6M through reserves in equity
- Fair value P&L impact \$192K
- Residual value \$0

A P I T E R

- Long term strategic partner for high quality bulk propolis and specialist product supply
- Good growth achieved in FY20 13%
 - Pharma Export (SA) 125% growth PCP
- South America Distribution partner for Comvita Mānuka
- Write down of carrying value to reflect medium term performance
 - FY20 impact \$1.3M
- Residual carrying value \$5.3M



FAIR VALUE ADJUSTMENT COMVITA CHINA

- Inventory value adjustment at 100% acquisition May 19
- Fair Value Adjustment recognised in COG's \$3.9M
 - One-off impact
 - Fully absorbed in FY20



A close-up photograph of pink cherry blossoms with green leaves and buds, serving as a background for the text.

BUILDING A BETTER BUSINESS

TRANSFORMATION PLAN

AROTAHU – OUR FOCUS FY21



Three Point Plan

- Stabilise performance
 - Transform the organisation
 - Build long term resilience and growth
-





FY21 Stabilise Performance





STABILISE PERFORMANCE

- **Winning in New Zealand and Australia**
 - NZ is our home market and we must win at home.
 - Build distribution and brand loyalty. NZ as a test market
 - Lift digital engagement, revenue and advocacy
- **Getting fundamentals right**
 - Focus on Mānuka and Propolis products
 - Long term investment model OLE
 - Joined up business planning based on sell out
 - Demand S&OP
 - Cashflow
 - Inventory
- **Relentless simplification and focus on core**
 - 30% SKU reduction target FY21-SKU count reduced to 446
 - Rationalising operating businesses 33% reduction
 - Reviewing underperforming and non-core assets – complete



Transform the Organisation

TRANSFORMED ORGANISATION

Consumer centric organisation

- Focus on consumer understanding and brand loyalty
 - Penetration and frequency of use
 - Lifetime loyalty
- Clear roles defined for in-market sales & marketing and support centre functions
- Increased emphasis on digital transformation

Results

178,000 new users

Weibo followers +277%



Digital sales +35%

New harvest model in FY21

- Designed to breakeven in a poor Mānuka honey harvest but increase upside from good harvests
- Significantly reduce risk of future poor harvest seasons
- Continue to leverage our plantation and Mānuka IP



Agile and focused team

- Leadership structure
- Science at the heart
- Consumer and customer focused
- Transformation is our new norm

New flat structure in place

CSO appointed



In progress

TRANSFORMED ORGANISATION

3 year \$15m transformation plan on track

- 500+ bps (5 ppts) improvement in gross margin
- Underlying fixed cost reduction of \$5.0m
- Generating long term operating leverage and enabling investment into China and North America growth markets
- Revenue required to achieve break-even NPAT reduced from \$16.2m to \$13.5m per month

Action

150 BPS in FY21

\$2M in FY21

Investment +\$6M

Complete

Re-define and re-connect with our cause to release organisational energy

- Develop and empower the team connected to our cause
- Net positive carbon 2030
- Increased focused on safety wellbeing and EVP

FY21

405K KWH

LTIFR FY21 -20%

Simplified structure

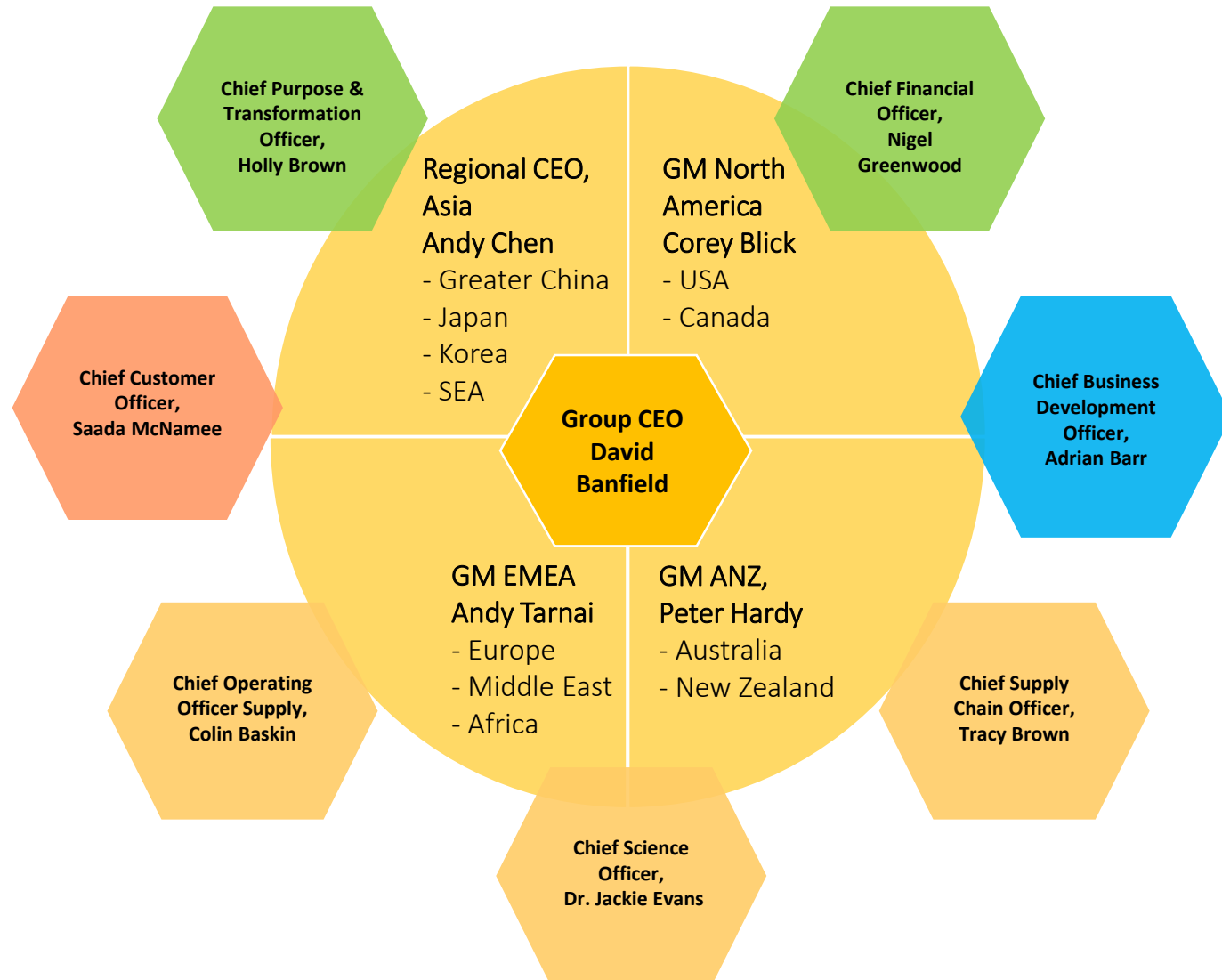
- Flatter structure, for better accountability and insight to action ✓
- Clear roles and responsibilities ✓
- New remuneration structure to be in place FY21 linking rewards and performance ✓



COMPANY RESTRUCTURE COMPLETE

- Clearer role of Markets and Paengaroa teams, and how they work together
- Customer facing roles unaffected
- Centralisation to NZ and China
- Agile organisation, expected to act
- New talent in China
- Leadership structure revised for better focus, accountability and delivery

LEADERSHIP STRUCTURE IMPLEMENTED





Long Term Resilience and Growth

Building resilience to weather
unexpected events



LONG TERM RESILIENCE AND GROWTH

Aligned 5-year strategic plan to deliver long term equitable growth

- Above average returns vs NZX 50
 - New business model focusing on Brand investment and returns (BVP)
 - Virtuous reward cycles based on results to recognise team as we grow
 - Mānuka category 9.4% CAGR revenue growth to 2025¹
 - 20 % EBITDA target 2025
 - Build confidence with shareholders through open communication and delivery of results
- **Focused growth in North America and China**
 - Total Addressable Market of US\$1.78Bn¹
 - Marketing investment to drive penetration, consumption and brand loyalty
 - Digital first strategy
 - **Building Torontos**
 - Extending the Toronto model to one major city in China and one in the US
 - Optimise distribution, marketing activation and digital communication to drive household penetration with new users and consumption from existing users
 - Run activity over 4-8 months with revenue per capita providing the benchmark for progressive roll out to the next group of cities and larger geographies

1. Source: Kantar World Panel and Statista



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 completed
- Investment in brand and team 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)



SUMMARY

- Strong second half performance demonstrates turnaround and transformation are on track
- FY20 underlying EBITDA \$19.1M
- Focused growth markets showing double digit top and bottom line growth
- Covid-19 has been a net positive as consumers chose high quality, natural health products
- Structure and joint venture review completed with costs in FY20 result
- Comvita is now leaner with a simplified and affordable customer focused structure
- We are in a significantly stronger financial position (H2 growth, working capital and debt reduction)
- New strategy and five-year plan agreed as we move towards our FY25 target of 20% EBITDA



Building a Better Business

FY21 TARGETS

- Targeting mid single digit revenue growth in FY21 (20% EBITDA benefit)
- Targeting 150 BPS improvement in GP
- Underlying fixed cost reduction of \$4M before transformation costs of \$1.5M
- Material increase in marketing investment in North America and China c\$6M
- **Building a Better Business**



THANK
YOU





QUESTIONS AND ANSWERS

