1 February 2024

Trading and Guidance Update

Comvita Limited NZX:CVT is today providing a further trading update following completion of its first half FY24 trading (unaudited) and an update to its forecast full year result for the year ending 30th June 2024.

Today's trading update is driven by weaker near-term consumer sentiment in China, a customer change in the US and a non-cash FX translation loss. Encouragingly, market share in key markets of China and US have remained strong, and sales in the last 10 weeks' lead up to Chinese New Year show improving trends. Management remains committed to its strategic plan which has delivered three and a half years of consistent growth in line with market guidance, positioning the company well once normalised trading resumes.

Summary

- **H1 FY24 Revenue** was $103M, down 8.1% vs prior corresponding period (pcp)
- **H1 FY24 EBITDA*** (excluding ERP System) is expected to be $9.5M, down 32% vs pcp. Excluding a non-cash FX loss, the change would have been down 22% versus previous guidance expecting it to be down 20%
- **FY24 Revenue** is now expected to be $225M to $235M (previously $245M to $255M)
- **FY24 Reported EBITDA** (after ERP investment) is now expected to be $30M to $35M (previously $33M to $38M)
- **Drivers:** Driven by reduced consumer demand, most notably in Comvita's largest market, China, and a moderation in North American demand, coupled with a distribution change
- **Gross Margin** remained around 60%. Market share is stable or growing in key markets
- **Impact on FY25 Plan:** Comvita is focussed on returning to consistent growth once trading conditions normalise, and its plan for FY25 EBITDA of $50M remains feasible, subject to timing of restoration of a more stable trading environment

H1 FY24 update

Comvita will release its H1 FY24 results on 21st February 2024 (refer to Tuesday 30th January announcement).

Comvita's unaudited revenue for the half year ending 31st December 2023 was $103M, a reduction of $8.6M vs pcp, with recent acquisition HoneyWorld™ contributing $6.8M in revenue. Thus, on a like for like basis, revenue excluding HoneyWorld™ fell by $14M (-12%) vs pcp, after adjusting for Comvita sales to HoneyWorld™ in pcp of $1.4M.

Comvita's unaudited EBITDA for the period (after adding back its one-off investment in its ERP system) is expected to be $9.5M which is approximately 32% down vs pcp. Comvita had previously forecast EBITDA (after ERP) to be 20% down vs pcp. There were $1.2M non-cash FX adjustments at 31st December relating to the strengthening of the NZD in the month, which could not have been forecast in the November trading update. Excluding the FX impact above, EBITDA would have been materially within guidance of 20% down.

Comvita's unaudited NPAT (Net Profit after Tax) for the period is expected to be a loss of $3.2M ($0.8M NPAT after ERP) compared to a profit of $4.2M in the prior period. Net debt at the half year was $85.8M and inventory $143M.

*EBITDA is a non-gaap measure

FY24 guidance update

Looking to the full year, given subdued consumption in China and North America, Comvita has revised its full year revenue range to between $225M and $235M, compared to November guidance of $245M and $255M. Reported EBITDA (after ERP investment) is now forecast to be between $30M and $35M, compared to November guidance of $33M and $38M. Comvita has identified c$8M of operating expenditure savings that can be realised in the second half to support delivery of this forecast. These comprise variable marketing and sales costs, performance-related incentives and reduction of transformation investment. Comvita is forecasting an improvement in its net debt position and a reduction in inventory, which will support positive operating cashflows in H2.

Update on trading conditions

China revenue for the half year was $33M, down 19% on pcp. The China revenue slowdown was driven by macro-economic weakness, impacting the premium consumer category. Sales in China during November and December showed improvement towards a more stable trading pattern. Reflecting this, China market Q1 FY24 revenue was -26% vs pcp and Q2 revenue -15% vs pcp. Q2 FY24 lifted by 76% vs Q1 FY24, an improvement beyond usual seasonality of c50-60% quarter on quarter (QoQ).

Revenue in Rest of Asia improved 52% or $6.6M to $19.2M driven by strong growth in Korea of 13% to $8.6M and Singapore of growth of $5.7M. ANZ revenue improved by $1.2M or 7% to $19.3M.
Comvita uses retail store presence in Hong Kong SAR, Singapore and Korea as a lead measure for consumer demand in the region, including China and is pleased to report good sell out performance in all three markets.

North America revenue for the half year was $13M, down 37% on pcp. North America sales were impacted by the loss of one customer in one region, inflationary pressure on discretionary spend and a disproportionately strong first half in the pcp. Comvita is seeing improvement in sales in the Natural and Grocery channel in America and since Christmas has signed new additional distribution agreements in this market.

Management outlook

Comvita's trading fundamentals during the period remain sound. Market share grew in key markets, pricing remained consistent and the gross margins that are integral to the delivery of its FY25 plan remained around 60%.

This gives the board and management confidence that the current performance is revenue related, short term in nature and will return to normal. Comvita has further reviewed its FY25 plan to deliver $50M EBITDA and has confidence that this can still be delivered. However, this is dependent on a return to normal trading conditions in both China and North America, the timing of which is uncertain. Comvita has reviewed independent market data showing forecast consumer spending strengthening in 2024 and thus expects a steady improvement in consumption through the second half.

Commenting, David Banfield (Group CEO) said "We remain confident that our business model, premiumisation of the Mānuka honey category and long-term investment in our brand, puts us in a strong position once macro-economic conditions stabilise. We continue to maintain or grow share in our core markets, and we see premium retailers in the US and Middle East turn to Comvita as the only brand committed to growing the category with two new high-quality partnerships confirmed for H2. We remain committed to deliver cost reductions in H2 to protect our earnings and are forecasting a further reduction of debt and inventory in H2 supported by positive operating cash flow."

"After three and a half years of consistent performance growing both top and bottom-line in-line with our market guidance and strategic plan we are disappointed in this result, which reflects current trading conditions. The team and I are absolutely focused on doing everything possible to ensure a return to our pattern of consistent long-term growth".

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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 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. Comvita has operations in Australia, China, North America, Southeast Asia, and Europe – and of course, Aotearoa New Zealand, where our bees are thriving.