25 February 2025

Comvita Interim result HY FY25 – Back to Basics

Comvita Limited (NZX:CVT) today announced its interim result for the six months ending 31 December 2024 (HY FY25). The results reflect a focus on getting the business back to basics and repositioning it to meet the current market realities. The company continues to restructure, reduce costs and stabilise the business, with a particular emphasis on net contribution and positive free cash flow.

Market conditions remain subdued, with China impacted by depressed consumer sentiment and aggressive competitor price promotions. The business has regained some lost ground in North America, indicating a positive trend despite the challenging environment.

Summary financials

- Revenue of $99.7M, down 5.3% on the same period last year (HY24 $105.3M, restated)
- China sales were $41.2M, $5.7M or 12.2% lower than pcp (HY24 $46.9M, restated)
- North America sales rose 12% to $14.6M, up $1.6M (HY24 $13M)
- Rest of Asia sales rose 14.9% to $22.1M, up $2.9M (HY24 $19.2M, restated)
- ANZ sales declined 19.4% to $15.5M (HY24 $19.3M), EMEA –8% at $2.0M (HY24 $2.2M)
- Gross margin declined by 930 BPS to 50.7% (HY24 60%, restated)
- OPEX was $56M, down 8.5% on last year (HY24 $61.2M, restated)
- NPAT was a loss of $6.5M (HY 24 -$2.5M, restated)
- Free Cash Flow improved to $2.0M for the period (HY24 -$25.9M, restated)
- Net Debt reduced to $81.6M (HY24 $85.8M, end June 24 $79.7M)
- Inventory was $120.8M, $23M or 16% lower than HY24 ($143.8M, restated)

Key points

- Gross margin in China remains stable and market share holding at c50% (remains #1 brand), and North America regaining lost ground with a major customer win confirmed in January 2025.
- We remain in discussions with the banks regarding a future covenant structure. An update will be provided to the market prior to end March 2025.
- Prior year adjustments have been made in FY23 and FY24 to address the accounting irregularities reported on 9 December 2024 and 10 February 2025, as well as a historical error in the calculation of the carrying value of inventory and the under-accrual of license fees (both in FY24 only).
- Improvements to internal controls and changes to structure and reporting lines have been implemented.
- A complete restructure has simplified the business in EMEA, North America and China, including a headcount reduction of four in the leadership team, 67 people overall, and a move from an eight-person to six-person Board of Directors.
- On track to achieve annualised cost savings of between $10M to $15M.
- Despite a glut of cheap honey in the market, Comvita continues to reduce inventory and protect its premium position and brand.
- The Mānuka Honey category is growing globally and new segments are evolving.

Financial Overview
Comvita achieved revenue of $99.7M for HY25, down 5.3% on the previous corresponding period, with continued weaker, though stabilising, revenue in China, and gains in North America, South East Asia, Korea and Japan. Gross margin declined to 50.7%, down 930 basis points (bps) on HY24, impacted by lower direct margin (-430 bps), reduced manufacturing recoveries, a weaker apiary season and higher inventory provisions. Total operating expenses for the half at $56.0M was $5.2M below the prior year, with marketing investment being the primary contributor to this reduction ($4.6M). The benefits of the restructuring and associated cost reduction initiatives will begin to flow through into second half performance and the FY26 performance will benefit from the full annualised impact of these initiatives. Net Profit after Tax (NPAT) was a loss of $6.5M, compared to a loss of $2.5M for the same period last year, restated. The NPAT loss of $6.5M included after tax $2.3M of net one-off costs.

Accounting irregularities
The company identified and reported to the market (9 December 2024 and 10 February 2025) that accounting irregularities had occurred over the two previous financial years – FY24 and FY23. These irregularities over-stated post-tax earnings by $1M in FY23 and $3M in FY24.

In late 2024, the Board became aware that certain sales recorded in FY23 and FY24 may have been misreported, resulting in an overstatement in those financial years. Under the direction of the Board, a big 4 independent accounting firm was engaged to undertake an independent review in addition to the company's own review. Initial findings confirmed that there were overstated sales recorded in China and the irregularities and impact of them were reported to the market on 9 December 2024. The review was ongoing at that time, with investigations continuing in China and Singapore. Further overstated sales were identified in Singapore, under-accrued sales expenses in China and Singapore and a historical error in the carrying value of inventory. A further update was provided to the market on 10 February 2025.

Banking and debt
Net debt at the half year was $81.6M (HY24 $85.8M) and inventory was $120.8M (HY24 $143.8M, restated). A $4.2M debt reduction compared to the previous comparable period was driven by positive free cash flow generation. Free cash flow was supported by a $8.3M reduction in debtors to $31M, through improved credit terms and collections and a $23m reduction in inventory, reflecting a focus on selling through excess inventory.

As previously reported to the market, Comvita agreed a revised bank covenant package as at 31 December 2024, and those bank covenants were met. The company's current financial performance does not enable it to achieve the current bank syndicate covenants, and Comvita remains in ongoing discussions with its bank syndicate. As already indicated, without further covenant relief some Q3 and Q4 covenants (tested at 31 March 2025 and 30 June 2025, respectively) will not be met. A further market update will be provided in advance of the next covenant test date of 31 March 2025.

"Our primary focus is on optimising net contribution from our market subsidiaries and on generating positive free cash flow every month." In the period September 2024 through to December 2024 the business produced $18M free cash flow, said Mr Hewlett. "In terms of our operations, we are bringing greater focus to reducing our costs per kg through optimised raw honey sourcing and procurement practices. So far we have confirmed cost-of-goods savings of $6M."

Market and Industry dynamics
Chief Executive Brett Hewlett said that Comvita, and the honey market more broadly, had been impacted by heavy price discounting. "While our response to competition has required some discounting and promotional programs of our own, which impacted margins, there have been some benefits with segmentation of the market opening up the category to a wider consumer base. We are uniquely placed going forward to leverage our robust health and wellness brand, reputation for launching innovative new products and our omnichannel capability," he said.

Very large global retailers, both offline and online, also recognise the potential for Mānuka Honey and are willing to partner with capable and reputable suppliers to explore opportunities. Comvita has regained lost territory with a large club retailer customer in the US, following a global RFP process that looked closely at quality, security of supply as well as sustainability and other ESG credentials.

"While industry wide surpluses of honey exist both in NZ and in-market, we expect a right-sizing of supply will result in an unwinding of the glut over the next 1-2 years, resetting wholesale honey prices."

Back to Basics - Repositioning the business for new reality.
The company has adopted a "Back to Basics" approach to re-size costs and operations to align with current market realities. As we simplify the business, reset our strategy appropriately, and reorganise to operate more efficiently, costs have reduced and the underlying performance is steadily improving.

While we have had to reduce staff, we have at the same time tried to better utilise the many talented people across our group. We are tearing down silos, fostering a culture based on trust, transparency and collaboration. This approach includes simplifying the organisation and implementing market-appropriate distribution models to grow market share in both premium and everyday value segments.

Governance
Comvita Chair Bridget Coates said the misreporting in FY23 and FY24 was deeply regrettable, and the Board is firmly focused on ensuring there are tightened controls, policies and procedures across the company, as well as on its challenge responding to a rapidly changing market in recent years.

"We have implemented much stricter audit and risk controls, including strengthened financial leadership, and delegation and approval requirements, and tighter ongoing monitoring and compliance policies and procedures," she said.

Ms Coates said the company was also working through a total restructure with a smaller, more accountable management team with greater direct oversight in-market, as well as a slimmed-down board of directors.

"We continue our aggressive process of transformation, to tighten our product offerings, examining every part of our company to optimise operations and supply chain, and reduce costs across the board."

Ms Coates said a recruitment process for a new CEO is underway and we are making good progress.

The way forward

Mr Hewlett said that, despite a number of setbacks, and challenging market conditions, Comvita was working hard to set itself up for a potential rebound in FY26.

“We have regained lost ground in North America, while stabilising declining sales in China retaining around 50% market share in China,” he said. “Our retail presence across Asia protects our premium brand performance.”

“Our long term 50-year track record, while cyclical, shows steady and significant growth. We retain a balanced product offering ranging across functional foods, healthy snacking and healthcare, and are the largest owners and operators of Mānuka forests in the world,” he said.

The company’s restructure and ongoing cost-out programme, “Back to Basics” approach, and renewed focus on the customer will help stabilise the business and strengthen net contribution and free cash flow over time.

Outlook

Comvita expects sales to remain broadly flat through to end of FY25. The key China market is expected to remain soft for the balance of 2025. Meanwhile, the situation in Rest of Asia and North America is expected to continue to steadily improve.

Margins have been under pressure, but Comvita expects current margins to remain stable for the rest of FY25, underpinned by a steadily improving cost-of-goods situation. Downward pressure on margins will slowly ease as Comvita works through existing higher cost inventory over FY25 and FY26. Industry wide reports are for a below average honey harvest for the 24/25 season. Meanwhile, Comvita’s forests and apiary provide security of high-quality supply over the longer term.

Comvita expects to steadily improve its cashflow position through H2 and into FY26 once the cost savings from the restructure are fully realised. The company remains on track to deliver between $10M-$15M of cost out by the end of FY25. A continued focus on cost, inventory reduction, and tighter, more prudent financial management has enabled the business to right-size for prevailing marketing conditions while protecting its brand and premium market position for when market conditions improve.

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Appendix - Performance by market segment

Greater China

Revenue from the sales in China for HY25 was $41.2M, down $5.7M or 12.2% on pcp. Net contribution to profit was $6.3M, down around $3M or 32.1%. The China market contributed 15.3% of profit (HY24 19.8%, restated). Key drivers continued to be depressed consumer sentiment and aggressive competitor price promotions. This heavy discounting particularly impacted market share at entry level, including in the Digital space, something Comvita is working hard to address.

Notwithstanding these challenges, Comvita's number one position (currently c50% share of the Mānuka honey market) as a health and wellness brand remains secure, and gross margin is stable as the company seeks to leverage its omni-channel capability across digital, retail, wholesale and distributor channels.

North America

Comvita regained lost ground in North America during the period winning a large, strategic customer. Revenue from this region was up 12% compared to HY24 to $14.6M. Net contribution to profit rose 21.5% to $2.8M, contributing 19.1% (HY24 17.6%). Highlights for the six months to December 31, 2024 included a refresh of the brand value proposition and product position to suit North American market requirements. The company also simplified its organisation structure for this market, including the use of shared resource. Growth was achieved in both offline and online channels.

ANZ

Difficult market conditions continued in Australia and New Zealand with sales down $3.7M or 19.4%. Net contribution to profit was down $2.9M or 46.7% to $3.3M. Overall contribution fell from 32.3% in HY 24 to 21.4% for the period under review. Underlying domestic sales in this market stabilised. However, pricing and softened demand in China challenges the cross-border value chain. Low-priced competition targeted entry points.

Rest of Asia

Sales revenue from the rest of Asia (excluding China) was up 14.9% or $2.9M to $22.1M (HY24 $19.2M, restated). Net contribution was down 30% to $1.8M, representing 8.3% of profit (HY24 13.5%, restated) The Retail channel helped hold up Comvita's premium brand image, and the company demonstrated strength on Omni-channel and regional product innovation.

EMEA sales decreased $0.2M or -8% to $2M, contributing a loss of $1.1M. This market featured a switch to a distributor business model. It continues to have a softer outlook but with the potential to improve to a positive contribution to profit looking forward.

ENDS.

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 400+ 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.