21 February 2024

Challenging interim result, margins and market share robust

Comvita Limited (NZX:CVT) today announced its interim results for the half year ending 31st December 2023 (H1 FY24), consistent with the recent update given to the market on 1st February 2024. Comvita also gives more detail on its FY24 forecast and reaffirms its outlook to FY25.

H1 FY24 results were impacted by weaker consumer sentiment in mainland China and, to a lesser degree, in North America, where the results were also affected by the loss of some distribution with one customer. However, Comvita's market positioning and margins remain strong, as the market leader in five out of six of its key markets, and gross margin at 60%, remains in line with Comvita's FY25 strategic plan.

While China sales are still below the prior year (as reflected in our recently updated FY24 guidance), there are some signs of near-term improvement, with a solid uplift in Q2 vs Q1 and, pleasingly, this has continued into January. Meanwhile, newly signed distribution agreements in North America in the second half will partially offset the loss of distribution noted above.

Looking forward, management remains focused on delivering the FY25 strategic plan first shared in 2020 once trading begins to normalise. This plan has delivered three and a half years of consistent top and bottom-line growth up until FY23, in line with market guidance. At this point, Comvita expects to see momentum return and when combined with strong market share, positions the company well for growth.

Summary

- **H1 FY24 revenue** $103M, down 7.8% vs prior corresponding period (PCP)
- **H1 FY24 EBITDA** (excluding ERP costs) $9.5M, down 32% vs PCP driven by weakness in China and North America, and negative (predominantly non-cash) FX adjustments in December 2023
- **Net debt** finished at $86M in line with its updated guidance, +$22M vs PCP due to investment in HoneyWorld™, Apiter and elevated inventory levels
- **FY24 revenue** is forecasted to be $225M to $235M
- **FY24 EBITDA** (excluding ERP costs) is forecasted to be $30M to $35M
- **Outlook** 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 at 60%. Market share is stable or growing in key markets
- **Impact on FY25 strategic plan:** Comvita is focussed on returning to consistent growth once trading conditions normalise. Management remains committed to its FY25 strategic plan to deliver EBITDA of c$50M, subject to the timing of a more stable trading environment
- **Dividend:** Directors declared a fully imputed interim dividend of 1 cps

H1 FY24 results

Comvita's revenue was $103M, a reduction of $8.8M 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.

Gross margin was strong at 60.2 %, in-line with the FY25 strategic plan, though reduced by 160 bps vs PCP due to formulation benefits and one-off provision release in the PCP. Direct margin increased +140 bps vs PCP.

Unaudited EBITDA for the period (excluding ERP costs) was $9.5M, 32% down vs PCP due to the decreased revenue. There were $1.2M of predominantly non-cash FX adjustments in December relating to the strengthening of the NZD in the month. Excluding the FX impact above, EBITDA (excluding ERP costs) would have been materially within guidance of 20% down. Note that the non-cash FX impact substantially reversed in January.

NPAT (Net Profit after Tax) for the period was a loss of $3.2M ($0.8M NPAT excluding ERP costs) compared to a profit of $4.2M in the prior period. Net debt at the half year was $85.8M and inventory $143M.

China and North America

Trading was challenging in Comvita's two focus markets of China and North America. Greater China revenue was $45M, down by $6.9M or 13%, and North America revenue was $13M, down by $7.7M vs PCP or 37%. Mainland China revenue for the half year was $33M, down 19% on PCP. Mainland China revenue slowdown was caused by macro-economic weakness, impacting the premium consumer category across multiple sectors. Mainland China market Q1 FY24 revenue was down 26% vs PCP and Q2 revenue was down 15% vs PCP. However, Q2 FY24 revenue lifted by 76% vs Q1 FY24, an improvement beyond usual seasonality of c50-60% quarter on quarter (QoQ). Mainland China's improving performance continued in January. Hong Kong SAR showed single-digit growth in the half.

North America revenue for the half year was $13M, down 37% on PCP. North America sales were impacted by the loss of some distribution with one customer, inflationary pressure on discretionary spend and a disproportionately strong first half in the PCP. Comvita is seeing an improvement in sales in the Natural and Grocery channel and has recently signed agreements in this market with approximately 700 new stores. E-commerce sales improved by 8% in North America with Amazon revenue improved by 162%.

Rest Of Asia – HoneyWorld™ integration on plan

The Rest of Asia segment showed good performance with revenue improving by 49% or $6.3M to $19.2M and is expected to overtake the ANZ segment at the revenue level. The strategic acquisition of HoneyWorld™ in July 2023 has been seamlessly integrated into the region. Revenue is in line with the plan with agreed new distribution representing strong growth opportunities in H2. Korea delivered 13% topline growth. Segment net contribution was down $700K vs PCP due to integration costs of c$200K and continued planned investment for long-term growth and premiumisation.

Australia and New Zealand (ANZ)

ANZ revenue improved by $1.2M or 7% to $19.3M in the period with strong performance in the Australia domestic market and recovery in the Asian Health segment, in line with recovering demand seen in Mainland China. Comvita remains the market leader in this segment and has recently launched its flagship store at Auckland Airport applying learnings from its destination store in the city, results are looking positive at this early stage and are supported by increased tourism numbers.

Net debt, inventory, and operating cashflow

Net debt finished the half at $85.8M an increase of $22M vs the PCP. The increase is primarily due to strategic investments in HoneyWorld™ and Apiter (together $9.8M) and investment in inventory. Inventory finished the year at $143M showing a slight improvement to PCP. Comvita is forecasting a reduction in both inventory and net debt by the end of the financial year in line with last year's performance.

Full year guidance
As announced on 1st February, Comvita expects FY24 reported EBITDA (excluding ERP costs) of $30M to $35M and revenue of $225M to $235M.

Comvita has reviewed independent market data showing forecast consumer spending strengthening in 2024. Comvita expects a steady improvement in consumption through the second half. More detail on Comvita's FY24 guidance can be found in the investor presentation, also released today, including both a revenue and EBITDA bridge from H1 to H2. In particular, Comvita has identified $8M of specific cost savings to be made in H2 FY24.

Management is actively managing costs, launching new products, and opening new markets and channels to ensure that they can adjust and respond to market opportunities. These include regional NPD in China and new distribution in the Middle East and the UK.

Honey harvest
Whilst too early to confirm the results of this year's honey harvest, Comvita has experienced strong performance to date, with early indications of significantly enhanced quality of yield delivered in its forests. Due to a change in accounting treatment, Comvita is not forecasting any contribution to group profits from its Apiary division during FY24, but this will benefit FY25 and FY26 due to lower average cost of sales as a result of this change.

Market share remains strong
While consumer sentiment weakened, Comvita's market positioning and margins have remained strong. Market share grew in key markets during the period, pricing remained consistent and the gross margins that are integral to the delivery of its 2025 strategic 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 trend once consumer sentiment, particularly in China, starts to normalise. Comvita has reviewed its FY25 strategic plan in detail and reiterates its c$50M EBITDA target. This is dependent on a return to normal trading conditions in both China and North America, the timing of which is uncertain.

Commenting on the results Chair Brett Hewlett said, "Comvita has shown agility and resolve in making appropriate adjustments in the current challenging market conditions in China. We have thoroughly reviewed our costs and planned investments and have reduced these appropriately. In addition, the investment we have already made for the long-term in securing a scalable supply of high-quality raw materials as well as world class manufacturing, distribution and now operating systems to match, have created a strong platform for future growth. Alongside the substantial investments in the Comvita brand we believe that we are well placed."

On a more personal note, as a long-standing shareholder of more than 18 years, I can empathise with the feelings of surprise and frustration in the current share price shared with me by many of our fellow shareholders. I do want to reiterate that our market share and underlying performance remains positive, our prices and margin are stable and I believe that we are still on track to deliver our FY25 strategic plan once consumer confidence in China returns."

"Directors have declared a fully imputed interim dividend of 1 cps to reflect the softer first half trading. Comvita remains committed to balancing shareholder distributions with prudent capital management. The board will review our full year dividend in August as normal in line with our actual performance and FY25 outlook."

Platform for growth supports exciting future

The Comvita FY25 strategic plan was designed to deliver record revenue and profit in FY25 but, as importantly, to systematically build a platform across its whole value chain that is integrated, efficient and scalable. By the end of FY24 this investment phase will have been fully implemented. Comvita has established a platform that is able to deliver Comvita's FY30 ambition, without further material additional capital investment.

Long-term investment in brand building and premiumisation continues

The Comvita business model is designed for high margin and high re-investment in its brand. During H1 FY24 Comvita invested $14M or 13.5% of sales into brand building activity. Central to this investment is further premiumisation of the Comvita brand both online and in physical stores. Comvita was particularly pleased to launch its new experiential shop-in-shop at Auckland Airport along with its new retail execution in Takashimaya, Singapore, and its pop-up store in Roppongi, Japan.

Comvita Lepteridine™ clinical trial results

Comvita invests more in scientific understanding of Mānuka than the rest of the industry combined and as part of this work discovered the unique molecule Lepteridine™. Comvita commenced a clinical trial on the impact of Lepteridine™ on gut health in July 2023. These results are in final stages of preparation and will be shared at the Foodomics conference on 19 - 21 March in Wellington. Comvita has strong patents for Lepteridine™ in place to enable long-term competitive advantage.

New Apiculture Industry strategy

Comvita is pleased to actively support the new Apiculture Industry strategy launched by the Government on the 20th February 2024 aiming to double Mānuka exports by 2030 focusing on enhanced quality, sustainability, bee welfare and recognition of Mānuka as a taonga species from Aotearoa, New Zealand.

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 turning to Comvita to help them build the Mānuka honey category with three new high-quality partnerships confirmed for H2. We remain committed to delivering 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. While our debt and inventory levels are higher at present, we reiterate our commitment to deliver our target leverage ratio (1-1.5 x earnings), in line with our FY25 strategic plan."

"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 track record of delivering consistent top and bottom-line growth. We are in year four of our five-year plan and have invested significantly over the last three years in our infrastructure and team capability to build a better more scalable business at Comvita that is able to deliver on our 2030 ambition."

David Banfield **CEO**	**Brett Hewlett** **Chair**

Appendix: Additional Commentary

e-commerce share of 40%
Comvita's e-commerce share of total business increased by 120bps to 40% of total sales at accretive margins despite the headwind of reduced sales in China. Registered users increased by 47% vs PCP, conversion rate improved and also repeat users materially increased by 1,300bps vs PCP. Customer acquisition cost has reduced by 20% so far this year highlighting the opportunity of recruiting new consumers at a lower cost and then retaining them.

Good progress on ESG
Comvita aims to become a world leader in ESG and has made good progress in this half with work ongoing to meet its climate related disclosure requirements. In addition, Comvita has a goal to be Carbon neutral in 2025 and net positive in 2030. Comvita's net carbon footprint decreased by 59% to 3800tCO_2 vs 9400tCO_2 in PCP.

Internal digital transformation
Comvita's internal digital transformation program is focused on updating their ERP system, redesigning internal inefficient processes and refreshing and cleansing master data. The project is on track (time and cost) to be implemented by 30th June 2024. This project will save over 20,000 hours per annum but most importantly create a modern and scalable infrastructure to build efficiency and release time for organisational talent to focus on growth initiatives and delivery of further efficiency.

Ends.

For further information:

Lebron Davis | One Plus One
Mobile: +64 21 252 4688
Email: lebron.davis@oneplusonegroup.co.nz

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.