

#### BWX sukin sukin SIGNATURE 1H19 Results AND WASH HYDRATING IGNATURE SCENT Presentation sukin sukin sukin HAND AND 22 February 2019 Myles Anceschi, CEO Vinod Somani, CFO

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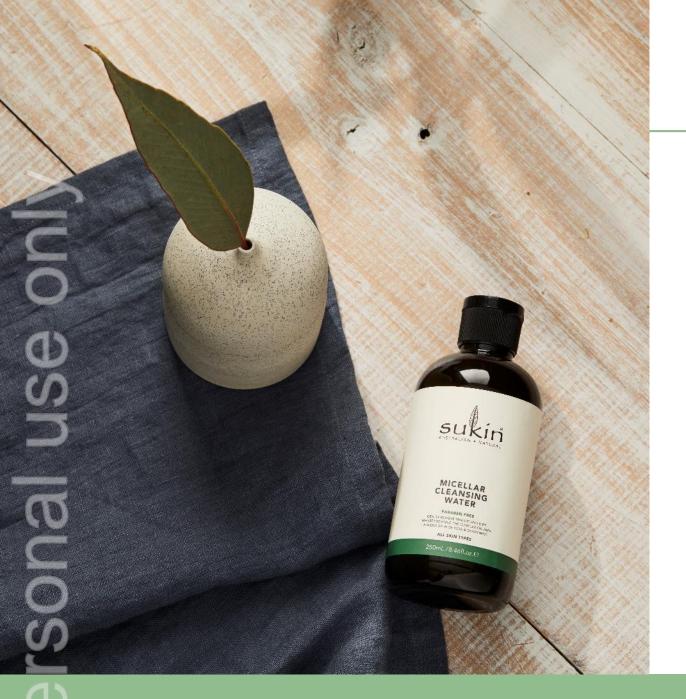
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#### AGENDA

- 1H19 summary
- Financial summary
- Brand update
- Strategy scorecard & outlook
- Q&A

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# only **1H19 SUMMARY** ersonal use

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#### **KEY MESSAGES**

- Revenue +1.4% to \$68.1m; reported EBITDA of \$7.2m; underlying<sup>1</sup> EBITDA of \$7.1m in-line with December 2018 trading update
- Sukin and acquired brand retail point of sales performance and market shares remain strong
- Significant improvement in Q2 operating performance including early stage benefits from transformation programs
- Cash flow in 1H19 impacted by inventories and prepayments that will benefit 2H19
- No interim dividend declared: dividend outlook to be reviewed at full-year results
- FY19 guidance update: Underlying EBITDA in the range of \$27m-\$29m (previously \$27-\$32m)



#### **1H19 DYNAMICS**

| CHALLENGES  | 1Q19 | 2Q19 | OUTCOMES/STATUS   |
|---|------|------|---|
| <b>Failed MBO:</b> Significant drain on resources when critical initiatives were in execution phase               |      |      | <b>Discussions with bid consortium concluded</b> mid-Sept. 2018.<br>Management now 100% focused on transformation                                     |
| <b>ERP Upgrade:</b> return to normal operations impacted resulting in lost sales, higher costs                    |      |      | <b>ERP fully operational in Australia:</b> starting to deliver expected benefits. US roll-out postponed to Q1 FY '20                                  |
| Warehouse relocations/consolidations: lost sales and higher costs during transition                               |      |      | <b>Completed end 1Q19:</b> Increased Nourished Life capacity by 4x. US facility consolidation delivers cost and leverage benefits                     |
| <b>Delayed roll-out of multi-brand selling model:</b> lost sales and retailer leverage                            |      |      | <b>H2 traction:</b> Sukin selling in 400+ US Natural doors, UK & Canada consolidation in H2   |
| <b>Temporary loss of sales momentum in US:</b> Key personnel appointments delayed, volatile US retail sales in Q2 |      |      | <b>Early signs of improved US momentum:</b> Key appointments and new resource capable of delivering target outcomes, stabilisation of US retail sales |
| <b>Mineral Fusion rebranding:</b> slowing down to speed up.<br>Relaunch pushed back 3 months                      |      |      | Launched January 2019 with encouraging initial results  |
| Soft export trading sales to China  |      |      | <b>Further refined go-to-market strategy:</b> signed exclusive distribution agreement effective December 2018   |



#### **GROUP QUARTERLY SUMMARY**



#### Net revenue (AUD million)

- Net revenue +1.4% to \$68.1m
- 2Q net revenue +55% compared to Q1

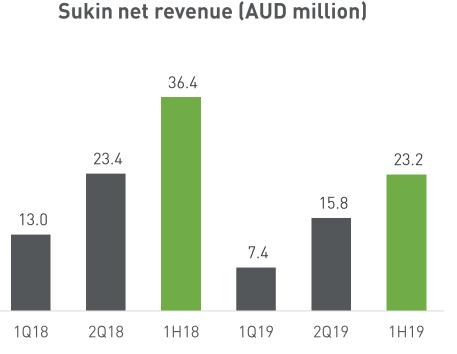
#### Underlying EBITDA (AUD million)



- Strong turnaround in 2Q EBITDA
- 2Q transformation momentum carries into H2

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#### **BRAND QUARTERLY DETAIL**

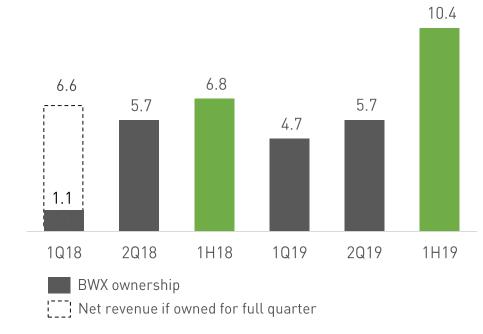


• Top line impact of ERP upgrade

• Soft export trading sales to China

Revised domestic and international strategy commenced in H2 FY18

#### Nourished Life net revenue (AUD million)



- Affected by warehouse relocation and ERP upgrade
- Momentum regained in Q2



#### **BRAND QUARTERLY SUMMARY**



#### Andalou Naturals net revenue (USD million)



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Net revenue if owned for full quarter

|             | 2Q18 | 1H18 | 1Q19 | 2Q19 | 1H19 |
|-------------|------|------|------|------|------|
| venue (AUD) | 8.2  | 8.2  | 10.0 | 13.1 | 23.1 |

Momentum building each quarter as innovation rolls out and base line sales improve

#### Mineral Fusion net revenue (USD million)



|               | 1Q18 | 2Q18 | 1H18 | 1Q19 | 2Q19 | 1H19 |
|---------------|------|------|------|------|------|------|
| Revenue (AUD) | 6.4  | 7.1  | 13.5 | 4.2  | 5.7  | 9.9  |

• H1 impacted by delay in rebranding and associated restriction on brand activity



# FINANCIAL SUMMARY

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#### **PROFIT AND LOSS**

| AUD million                         | 1H18  | 1H19  | Change  |
|-------------------------------------|-------|-------|---------|
| Revenue                             | 67.2  | 68.1  | 1.4%    |
| Gross Profit                        | 40.0  | 35.1  | -12.3%  |
| Gross Profit Margin                 | 59.6% | 51.5% | -8.1pp  |
| EBITDA – Reported                   | 12.1  | 7.2   | -40.5%  |
| EBITDA - Underlying <sup>1</sup>    | 17.5  | 7.1   | -59.5%  |
| Depreciation & Amortisation         | -0.9  | -1.4  | 43.0%   |
| Interest Expense                    | -1.9  | -2.8  | 45.5%   |
| Tax – Reported                      | -3.8  | -0.4  |         |
| Tax – Underlying <sup>1</sup>       | -3.9  | 1.1   |         |
| NPAT - Reported                     | 5.4   | 2.6   | -51.8%  |
| NPAT – Underlying <sup>1</sup>      | 10.8  | 4.0   | -62.6%  |
| Basic EPS - Reported                | 5.2   | 2.1   | -3.1cps |
| Basic EPS – Underlying <sup>1</sup> | 10.4  | 3.2   | -7.2cps |
| Dividends per share                 | 3.3   | -     | -3.3cps |

#### Net revenue:

64% of net revenue comprised of the three acquired businesses (1H18: 43%)

#### **Gross Profit:**

- Group gross profit margin impacted by an increased proportion of net revenue coming from the acquired businesses
- Sukin brand gross profit margin % in-line with 1H18

#### **Operating expenses:**

84% of increase in operating expenses (vs.1H18) is attributable to the acquired businesses (Andalou Naturals & Nourished Life) being in operation for full six-months during 1H19

#### **Depreciation & Amortisation:**

Higher D&A due to recognition of intangibles stemming from finalisation of Nourished life acquisition

#### Tax:

Lower tax expense impacted by Andalou Naturals deferred payment

1. Underlying is a non-IFRS measure that excludes non-recurring items. Refer Appendix for a reconciliation of reported to underlying



#### **NON-RECURRING ITEMS**

|                                 | 1H               | 18   | 1H19    |          |  |
|---------------------------------|------------------|------|---------|----------|--|
|                                 | Pre-tax Post-Tax |      | Pre-tax | Post-Tax |  |
| Deferred consideration reversal | 4.6              | 3.0  | 5.4     | 3.8      |  |
| Costs relating to MBO proposal  | -                | -    | -4.6    | -4.5     |  |
| Restructuring costs             | -4.8             | -3.9 | -       | -        |  |
| Acquisition costs               | -5.2             | -4.4 | -0.8    | -0.8     |  |
| Total                           | -5.5             | -5.4 | 0.1     | -1.4     |  |



#### **BALANCE SHEET**

| AUD million                    | 1H18  | 1H19  | Change |
|--------------------------------|-------|-------|--------|
| Assets                         |       |       |        |
| Cash                           | 19.9  | 5.7   | -71.6% |
| Trade and other receivables    | 31.2  | 30.4  | -2.4%  |
| Inventories                    | 27.9  | 34.9  | 25.2%  |
| Prepayments                    | 1.8   | 6.1   | 236.8% |
| Plant and equipment            | 3.5   | 3.9   | 11.3%  |
| Intangible assets and goodwill | 274.3 | 284.5 | 3.7%   |
| Deferred tax assets            | 3.2   | 6.1   | 92.1%  |
| Total Assets                   | 361.8 | 371.7 | 2.7%   |
| Liabilities                    |       |       |        |
| Trade and other payables       | 16.2  | 22.9  | 41.6%  |
| Financial liabilities          | 72.8  | 69.7  | -4.3%  |
| Current tax liabilities        | 1.4   | 0.4   | -69.3% |
| Employee benefits              | 1.4   | 1.2   | -14.9% |
| Total liabilities              | 91.8  | 94.3  | 2.6%   |
| Net assets                     | 270.0 | 277.4 | 2.8%   |

- Cash impacted by lower EBITDA, working capital and deferred payment in relation to Andalou Naturals acquisition
- Lower financial liabilities due to a \$10.6m reduction in deferred consideration / payments on acquisitions, offset by movement in working capital banking facility
- All bank covenants obligations compliant as at 31 December 2018
- No adjustment to the carrying value of assets following December 2018 external review

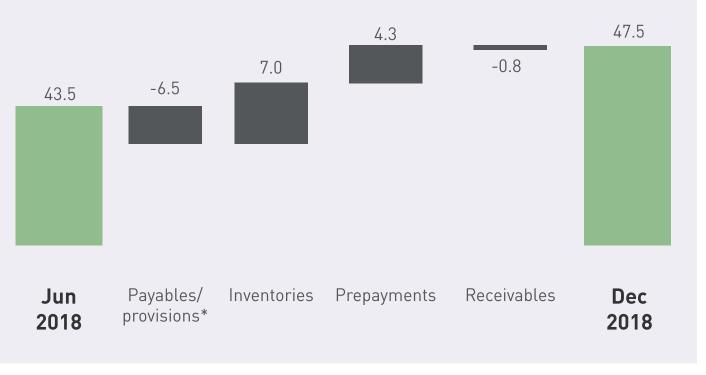
|                        | 1H19 |
|------------------------|------|
| Debt                   | 57.1 |
| Deferred consideration | 12.6 |
| Total debt             | 69.7 |



#### **WORKING CAPITAL**



#### Working Capital Movements (\$m)



- Plans in place for inventories balance to reduce by 30 June 2019
- This, together with the unwind of prepayments, will provide a cash flow benefit in the second half

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Movement comprises Trade and other payables (+\$6.7m) and employee benefits (-\$0.2m)



#### **CASH FLOW RECONCILIATION**

| AUD million               | 1H19 |
|---------------------------|------|
| EBITDA (underlying)       | 7.1  |
| Working Capital movements | -4.0 |
| Transaction costs         | -2.1 |
| Interest expense          | -1.9 |
| Тах                       | -2.5 |
| Other                     | -3.9 |
| Operating Cash Flow       | -7.3 |
|                           |      |
| AUD million               | 1H19 |
| Capital Expenditure       | -2.6 |

- EBITDA to Operating Cash Flow largely impacted by working capital movements
- Capital expenditure expected to be 1-2% of net revenue this financial year

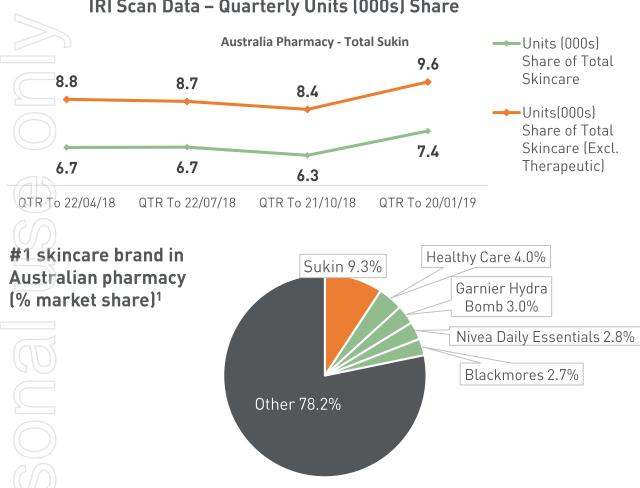
|  | 1H19 |
|--|------|
| Working capital adjustment for transaction costs | -3.3 |
| FX/other   | -0.6 |
| Total  | -3.9 |





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#### **SUKIN** (34% OF GROUP SALES)



#### IRI Scan Data – Quarterly Units (000s) Share

<sup>1</sup> Universe excludes therapeutic skincare. IRI Market Edge Data – Australian Pharmacy Skin Care - Units Share – MAT to 20/01/19



- Marketing execution & brand activations effective •
  - "Nothing but Special" Media campaign driving incremental growth
  - Digital re-launch and social media programs improving engagement
- Brand innovation supporting growth via entry into new segments
- Domestic availability-improvement strategy delivering results •
- Refined international model improving sustainability of • revenues

#### **Outlook:**

- Range expansion with existing and new trade partners •
- Domestic performance strengthening via improved distribution •
- Brand innovation will support growth in new opportunity segments
- International revenue growth from existing and new markets •

#### NOURISHED LIFE (15% OF GROUP SALES)



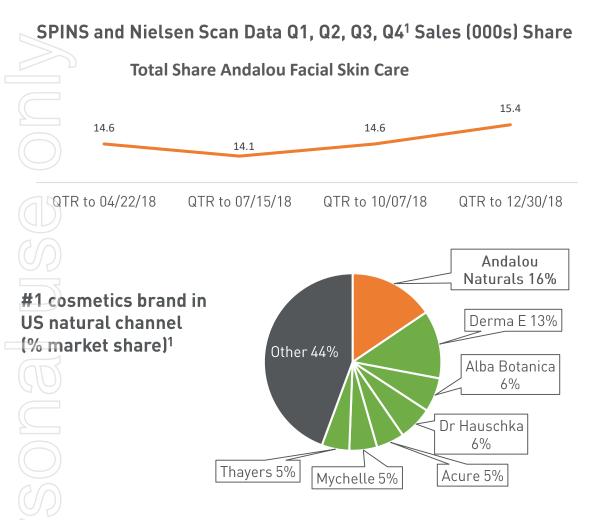
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- Platform upgrade work complete user experience issues resolved
- Domestic growth rates remain strong
- B2C Consumer behavior intelligence leverage improving
- Improved systems with established team driving greater insights

#### Outlook:

- Strengthened platform to drive operating leverage
- Platform launch in 2 new international markets in H2
- Domestic organic growth robust with opportunity to improve
- Broader group procurement plan to support margin expansion
- APAC Model learnings create functional model for regional expansion

#### ANDALOU NATURALS (34% OF GROUP SALES)



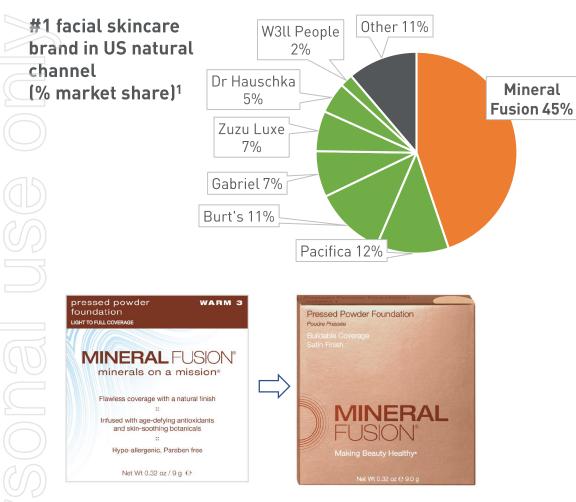
- North American consumer sales strong, market shares growing
- Marketing execution focused on brand core and US channel opportunity
- Recent innovation & strong pipeline supporting brand share growth
- International integration with Sukin activities progressing

#### **Outlook:**

- Innovation and channel expansion to support growth
- International integration and registrations open new markets
- Internal manufacturing trial in H2 will quantify margin improvement opportunity
- Operating leverage from combined Andalou / MF / Sukin platform
- Broader group procurement plan to support margin expansion

E Based on SPINS 12 week data for period ending 30/12/18 and Nielsen Whole Foods data for period ending 29/12/18

#### MINERAL FUSION (15% OF GROUP SALES)



<sup>1:</sup> Based on SPINS 12 week data for period ending 30/12/18 and Nielsen Whole Foods data for period ending 29/12/18

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- 2018 saw a planned re-brand to broaden consumer and channel appeal
- Significant work on the re-brand was delayed by 3 months resulting in:
  - Lost Q1 promotional intensity during the planned change period
  - Revised launch timing requiring sales activity restriction in Q2 in advance of packaging change-out in 1000+ doors.
- Despite this brand pause, market shares remain strong
- Upgraded livery now facilitating fresh discussions with retail partners
- Re-packaging supports new brand positioning and natural messaging

#### Outlook:

- Encouraging initial results from new branding launch in January 2019
- Improved brand platform to grow baseline and channel expansion
- Broader group procurement plan to support margin expansion 20
- Priceline test in H2 opportunity to refine international expansion
  model
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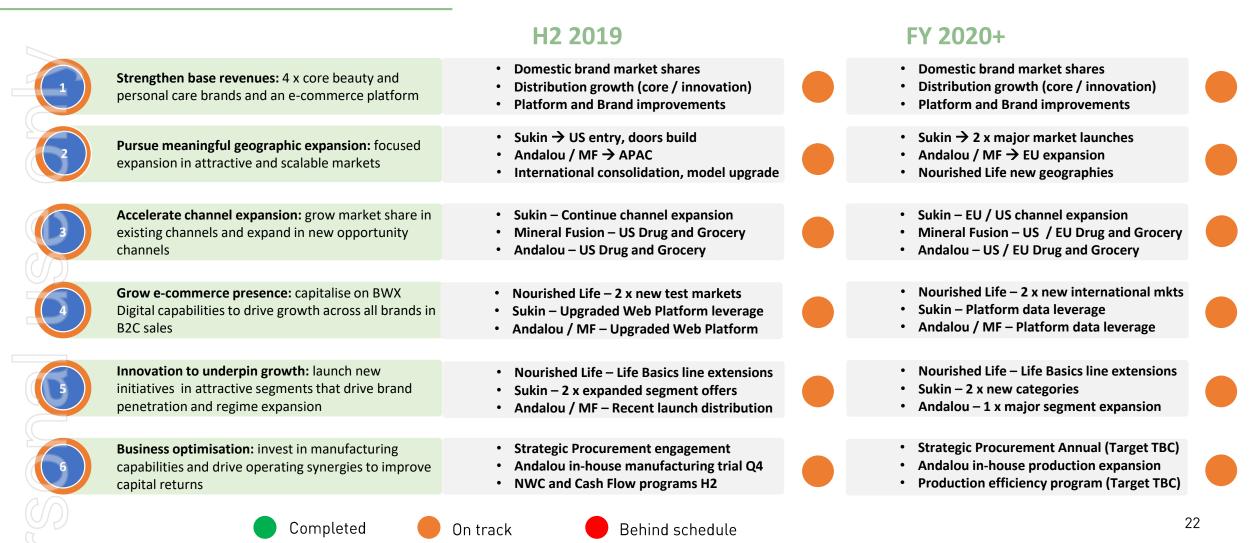
### STRATEGY SCORECARD & OUTLOOK

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#### STRATEGIC OBJECTIVES SCORECARD





OUTLOOK

#### FY19 Guidance update: underlying EBITDA in the range of \$27m-\$29m (previously \$27-\$32m)

- Point of sales data highlights ongoing strength in our brands and provides confidence in traction with consumers across our portfolio
- Expect to see further growth in offshore markets as international re-set and consolidation progresses
- Improved conversion in earnings to cash in 2H 2019
- Capital expenditure within 1-2% of net revenues in FY19

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#### APPENDIX



- Group cash flow statement
- 1H19 underlying EBITDA by month
- Strategic channel expansion



#### **REPORTED TO UNDERLYING RECONCILIATION**

| AUD millions                |          | 1H18              |            |          | 1H19              |            |  |
|-----------------------------|----------|-------------------|------------|----------|-------------------|------------|--|
|                             | Reported | Non-<br>recurring | Underlying | Reported | Non-<br>recurring | Underlying |  |
| Revenue                     | 67.2     |                   | 67.2       | 68.1     |                   | 68.1       |  |
| Gross Profit                | 40.0     |                   | 40.0       | 35.1     |                   | 35.1       |  |
| Gross Profit Margin         | 59.6%    |                   | 59.6%      | 51.5%    |                   | 51.5%      |  |
| EBITDA                      | 12.1     | 5.5               | 17.5       | 7.2      | -0.1              | 7.1        |  |
| EBITDA Margin               | 17.9%    |                   | 26.1%      | 10.4%    |                   | 10.4%      |  |
| Depreciation & Amortisation | -0.9     |                   | -0.9       | -1.4     |                   | -1.4       |  |
| EBIT                        | 11.1     | 5.5               | 16.6       | 5.8      | -0.1              | 5.7        |  |
| Interest Expense            | -1.9     |                   | -1.9       | -2.8     |                   | -2.8       |  |
| Тах                         | -3.8     | -0.1              | -3.9       | -0.4     | 1.5               | 1.1        |  |
| NPAT                        | 5.4      | 5.4               | 10.8       | 2.6      | 1.4               | 4.0        |  |

#### **GROUP CASH FLOW STATEMENT**



| AUD million  | 1H18   | 1H19   |
|--|--------|--------|
| Cash flows from operations                             |        |        |
| Receipts from customers                                | 72.5   | 72.0   |
| Payments to suppliers and employees                    | (54.6) | (73.1) |
| Payments for transaction costs                         | (7.5)  | (2.1)  |
| Income taxes paid                                      | (4.9)  | (2.5)  |
| Other income received                                  | 0.02   | 0.3    |
| Interest paid  | (1.9)  | (1.9)  |
| Net cash from operating activities                     | 3.7    | (7.3)  |
|  |        |        |
| Cash flow from investing activities                    |        |        |
| Acquisition of plant and equipment                     | (0.4)  | (1.2)  |
| Acquisition of intangible assets                       | -      | (1.4)  |
| Net cash outflow on acquisition of business            | (98.1) | (5.2)  |
| Net cash flows used in investing activities            | (98.5) | (7.9)  |
|  |        |        |
| Cash flows from financing activities                   |        |        |
| Proceeds from issue of share capital                   | 128.2  | 0.9    |
| Transaction costs for issue of shares                  | (4.5)  | -      |
| Dividends paid   | (3.8)  | (5.1)  |
| Proceeds / (repayments) from borrowings                | (9.4)  | 4.7    |
| Net cash used in financing activities                  | 110.6  | 0.5    |
|  |        |        |
| Net (decrease) / increase in cash and cash equivalents | 15.8   | (14.6) |
| Effect of exchange rate changes on cash held           | 0.1    | 0.4    |
| Cash and cash equivalents at beginning of period       | 11.0   | 19.9   |
| Cash and cash equivalents at end of period             | 26.9   | 5.7    |

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#### **1H19 UNDERLYING EBITDA** BY MONTH (\$Am)





# STRATEGIC CHANNEL EXPANSION





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