



BLACKMORES®



# BLACKMORES FULL YEAR FINANCIAL RESULTS 2017



Year ended 30 June 2017

# A REBALANCING YEAR FOR BLACKMORES



Eric Jeanmaire, Sales Director, Blackmores Australia

- A challenging first quarter and turbulent year, and the Group emerged stronger
  - Group Sales of \$693m, down 3% on prior year
  - Group NPAT of \$58m, down 42% on prior year
- Australian retail market has been competitive, putting pressure on profit
- Consumer demand remains strong though retail environment is volatile
- Realigned cost structure to manage expenses and reinvesting savings into growth initiatives
- Appropriate provisions in place for inventory secured during 2016 supply constraints and for infant formula
- Final dividend of 140c, taking total dividends to 270c fully franked

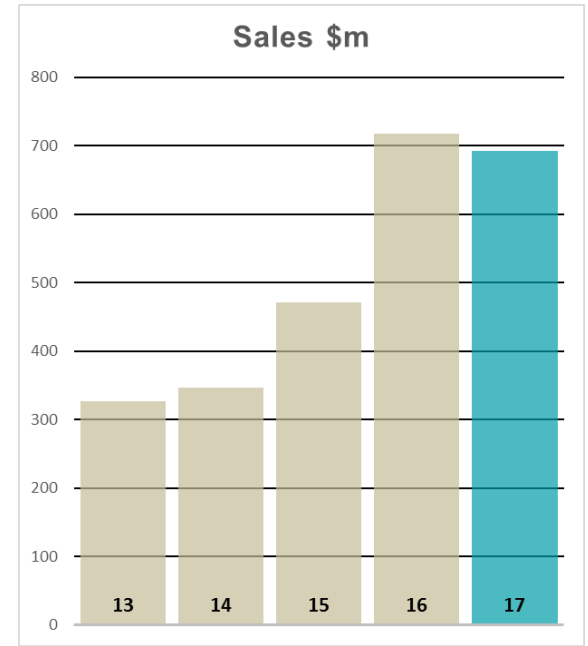
# SALES IMPROVED AS THE YEAR PROGRESSED

- Full year sales of \$693 million, down 3% on prior year

FY17 Sales		
Q1	\$149m	-8%
Q2	\$173m	-3%
Q3	\$174m	-9%
Q4	\$197m	+6%

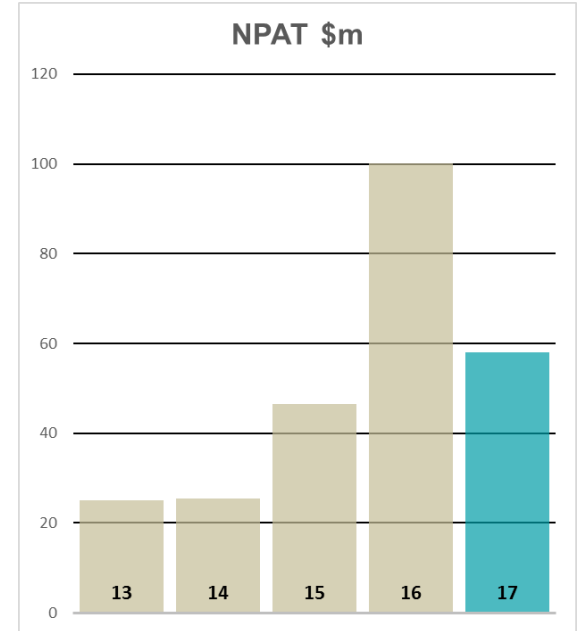
\*Compared to prior year

- Sales channels continue to evolve, particularly in Australia and China
- Australian retail has been competitive and required a higher level of investment in trade expenses and promotional support



# PROFIT WAS IMPACTED BY A COMPETITIVE RETAIL LANDSCAPE

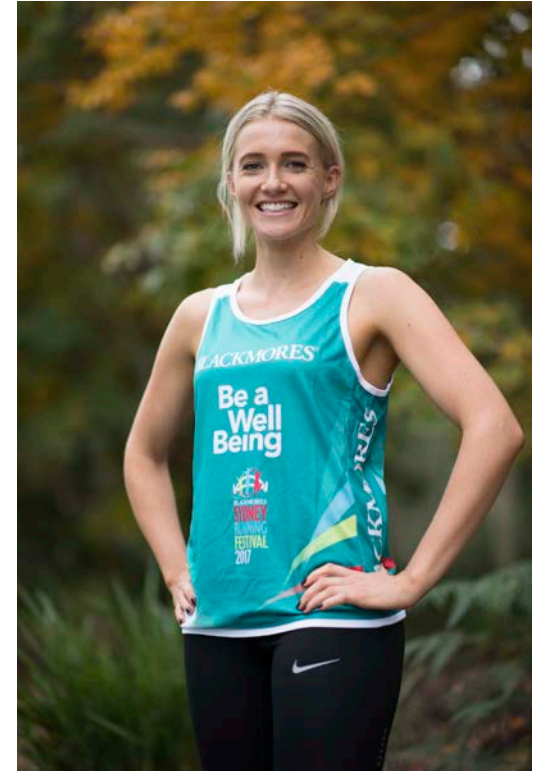
- Earnings before interest and taxes of \$86m, down 41% on prior year
- Net profit after tax of \$58m for the full year, down 42% on prior year
- Profit was impacted by a higher cost of operating in our channels, higher ingredient costs, which put pressure on margins, and one-off provisions
- Management has reviewed operations and activity to reshape the business to reflect the changing retail environment and control expenses



# BLACKMORES AUSTRALIA & NZ

BLACKMORES

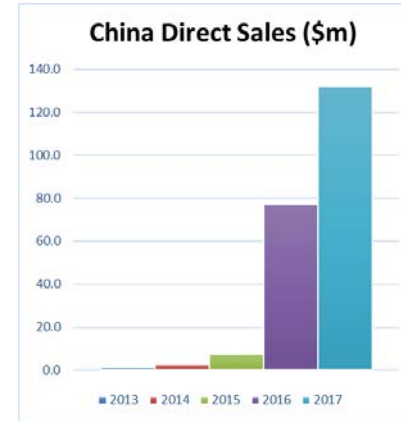
- Blackmores Australia, New Zealand and Pure Animal Wellbeing sales for the full year were \$372 million, down 23% as Chinese tourists and exporters changed their buying patterns
- Blackmores remains the number one in the category in Australia, and most trusted brand for 9 years running<sup>1</sup>
- Channel disruption and destocking inventory evident, particularly in the first quarter
- Strengthening and growing market position. IMS data shows Blackmores domestic sales delivering modest growth, ahead of category growth



1. Reader's Digest Trusted Brands 2017

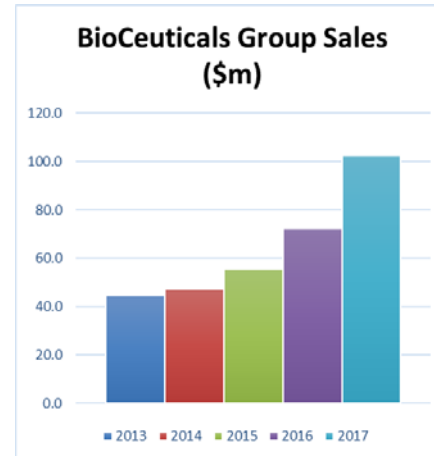
# ASIA GROWTH

- Total Asia sales at \$216m up 36%, delivering almost \$29m in EBIT up 3% on prior year
- China direct sales at \$132m up 71%. Including sales through Australian retailers for consumers in China, China accounts for an estimated \$250m of Group sales
- Presence in China expanding with new offices opened in Guangzhou and Chengdu
- Blackmores appointed Vice President Company of the China Association for Quality Inspection
- Strong sales in established markets in local currencies – including Thailand (+8%), Malaysia (+11%), Singapore (+13%), Hong Kong (+50%) and Taiwan (+58%)
- First nine months of operation in Indonesia through JV Kalbe Blackmores Nutrition adding \$4m in sales (AUD). Performance in line with expectations
- Vietnam launch announced, distributor and team appointed, products progressing through registration process



# BIOCEUTICALS & GLOBAL THERAPEUTICS

- BioCeuticals Group sales of \$102m, up 42% on prior year
  - BioCeuticals sales of \$79m, up 15% and clear market leadership in practitioner-only products
  - Global Therapeutics sales of \$23m, up 11% on a like-for-like basis
- EBIT of \$14.3m, up 44% in prior year
- Strong innovation pipeline delivered in the year
- Global leader in education with more than one million downloads of FX Medicine podcasts in the year



# NUTRITIONAL FOODS

- Sales of \$4m through the Bemore partnership (of which Blackmores has a 50% share), down 53% on prior year
- Impacted by continued regulatory uncertainty in China
- Opportunities to expand further in export markets in FY18
- Appropriate inventory provisions in place
- The Partners continue to monitor the operations of the joint venture





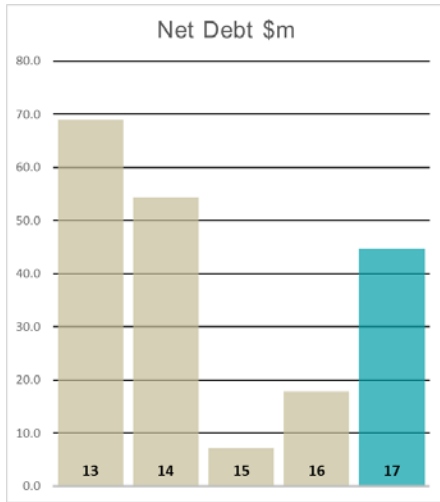
# OPERATIONAL EFFECTIVENESS



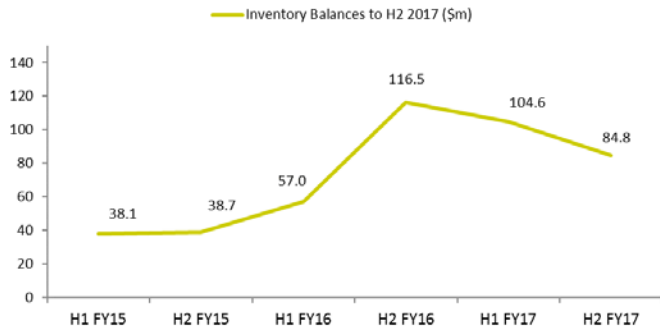
Adam Martin at the Bungarribee Distribution Centre

- Major supplier review undertaken, full compliance to Code of Conduct, commitment to sustainability, access to more raw materials and improved pricing
- Inventory levels decreased in the second half of the financial year finishing the year at normalised levels
- 16,000m<sup>2</sup> state-of-the-art-facility in Bungarribee, Western Sydney fitted out doubling warehousing footprint to support higher volumes and anticipated growth
- Technology upgrades across the Group including world-leading Learning Management System

# BALANCE SHEET



- Inventory holdings normalised, down 27% to \$85m (down \$49m on the peak period in September 2016)
- Appropriate provision in place for inventory
- Working capital broadly flat year on year, but \$27m lower since December
- Gross debt at \$79m, up 42% (net debt \$45m) after payment of record dividend and taxation

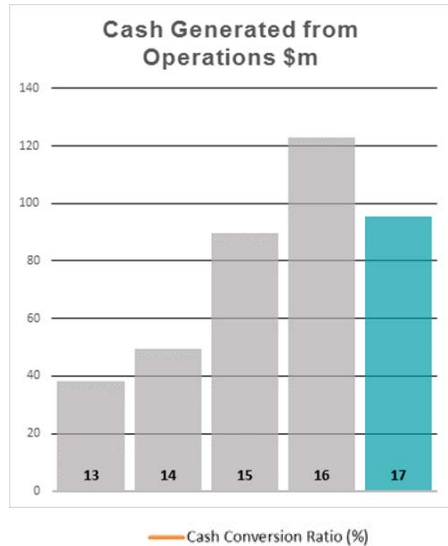


New Asian banking partner added in the year

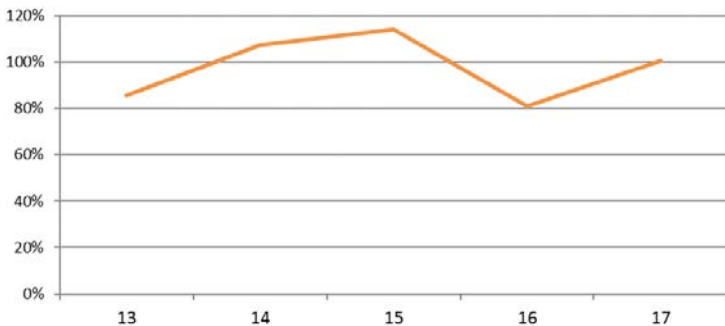
Gearing ratio is 20.1% (2016: 9.1%) with net interest cover at 20.6 times

Conservative level of headroom on all bank covenants

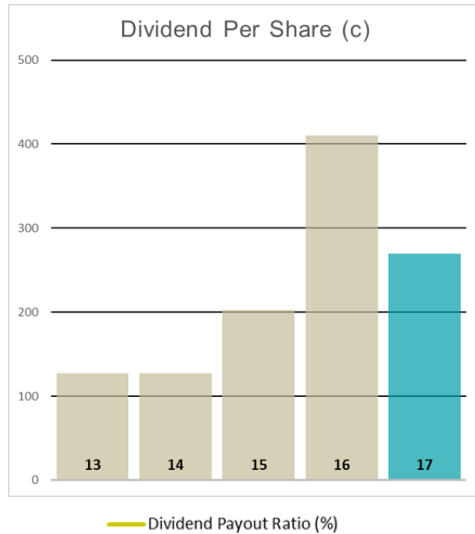
# CASH FLOW & CASH CONVERSION



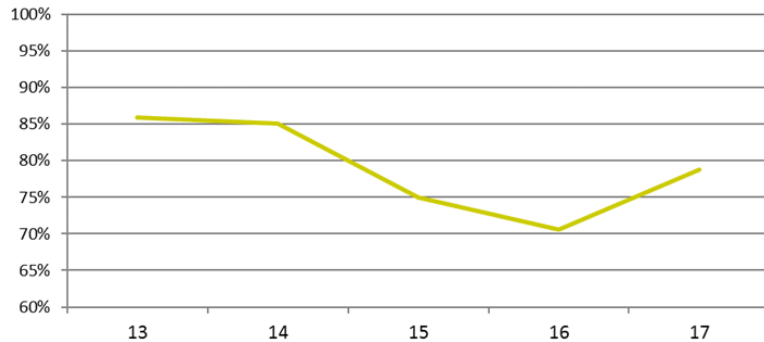
- Cash generated from operations of \$95m, down 23%, compares favourably to EBIT, down 41%
- Cash generation fundamentals remain strong
- Funded record dividend, taxation and staff incentive payments in the year (relating to FY16)
- Strong H2 cash flow performance delivered improved year-end result
- Cash conversion ratio (CCR) of 101%, up 20%, H2 CCR of 161% reflects improved operational cash metrics



# DIVIDENDS



- EPS of 342.6c, down 41% on prior year
- Final dividend of 140 cents
- Full year dividends of 270 cents per share fully franked, representing down 34% on prior year
- Dividend payout ratio of 79%
- Shareholders need to be registered on 12 September 2017
- Payable on 26 September 2017
- DRP remains suspended



# FOURTH QUARTER

- Sales \$197m, up 6% on prior corresponding period
- Improved underlying trading across business with margins impacted by inventory provisioning
- EBIT \$23m, down 36% on prior corresponding period, includes prudent provisioning for risk on infant formula and select inventory items purchased during supply constraints of 2016
- NPAT \$15m, down 37% on prior corresponding period
- Christine Holgate resigned as CEO, Blackmores Chief Operating Officer Richard Henfrey appointed in subsequent weeks as her successor



Richard Henfrey, Blackmores Chief Executive Officer

Market conditions will continue to change and evolve in Australia and in Asia. Regulation, pricing and channel strategy changes provide challenges.

Notwithstanding these challenges, Asia, and China in particular, is a significant opportunity, consumer demand remains strong and we expect recent initiatives such as our improved distribution capability and online education platform, to strengthen our core.

Blackmores' management and the Board expect year-on-year profit growth this financial year.



Evan Hayes, Director of Sourcing, and supplier Tim Smith from Boundary Bend



**BLACKMORES<sup>®</sup>**

Wes Ipsen, Blackmores Quality Sourcing Manager