



# Towards sustainable growth

25 AUGUST 2020

## Blackmores results in line with half year guidance, delivers strong growth in International markets and stabilises Australia and China despite impacts from COVID-19

### FULL YEAR FINANCIAL RESULTS

- Full year revenue of \$568m, down 3% on prior year
- Strong growth in International markets, revenue up 30% on prior year
- Underlying full year NPAT of \$18.7m, in line with guidance despite impacts from COVID-19
- Successful Capital Raise of \$141m, including \$49m from Shareholder Purchase Plan
- Announcement of restructuring program to align organisation to strategic growth priorities
- Sale of non-core assets progressing
- The Board has decided to not pay a final dividend due continued uncertainty in the current global climate.

### DEAR SHAREHOLDERS,

Blackmores Limited (ASX: BKL) today announces the full year result of \$568m in revenue (down 3% on the prior year) and reported NPAT of \$18.1m (down 66% on the prior year).

Excluding one-off costs, the underlying NPAT is \$18.7m.

We have finished the year with some very good results in our International markets with revenue up 30% on the prior year, BioCeuticals revenue up 7%, while Blackmores strengthened its leadership position in Australia with 16.4% share of the vitamin and dietary supplement (VDS) market<sup>1</sup>.

This is despite the unprecedented disruption due to COVID-19 and highlights the strength of our brands in meeting consumer health needs.

We are making good progress in China with stronger leadership in place and, for the first time, in-market dedicated resources who are close to our China consumers and using these insights for our new product innovation pipeline.

Our full year results today reflect the anticipated transition to a vertically integrated business. However, this comes with a higher operating cost structure in the short term.

I am pleased with the improvements that have been made to ensure we have much better visibility and control of our fixed costs, while delivering a very strong operating cash performance. We will continue to step up our business improvement program to aggressively manage our cost base and improve gross margins.

<sup>1</sup> Nielsen & IQVIA, RMS/Sell Out service, Vitamins and Dietary Supplements, Australia Grocery Pharmacy, Total Retail Sales, Fiscal Year 2020

The Blackmores Group share placement in May was met by a strong market response raising \$92 million. The subsequent Shareholder Purchase Plan which completed in July raised an additional \$49 million.

This overwhelming support highlights the investor goodwill and belief in Blackmores and our reinvigorated management team over the long term. This capital initiative significantly improves our cash and debt position and enables us to accelerate against our growth priorities.

We are currently implementing an organisational redesign. This will enable us to reinvest into high growth markets across Asia and strengthen capabilities to deliver on our strategy. Employees in Blackmores' Australia and New Zealand operations commenced a consultation process last week, which will be completed in September.

It is expected that as a result of the organisational redesign there will be a reduction of approximately 10% of our workforce and partly offset by investment in roles in Asia and strategic priorities across the Group.

The review of our brand portfolio is now complete and we can confirm the sale of IsoWhey and Wheyless will be completed next month.

Today we announce our intention to divest the Global Therapeutics business and discussions with a number of interested parties are progressing well.

## **BLACKMORES AUSTRALIA & NEW ZEALAND**

Blackmores continues to be the number one VDS brand in Australia, growing market share to 16.4%<sup>2</sup> and voted the most trusted brand for the 12th year in a row by Reader's Digest<sup>3</sup>.

In Australia and New Zealand, we were faced with the impact of lower sales from Chinese led demand. In the 2019 calendar year, demand for Australian VDS products from Chinese shoppers was 24%<sup>4</sup> of Australian retail sales. In the second half of FY20 this dropped to 16%<sup>5</sup> as travelers to and from China stopped visiting due to COVID-19 restrictions.

For Blackmores Australia, sales to Chinese shoppers in retail were down 16% over the same January to June period and despite the increase in domestic consumption it was not enough to offset this volume loss. This resulted in a 15% decrease in net sales to \$227 million for the full year.

Despite these challenges, consumer sentiment for the brand is strong with Blackmores being the most recognised brand name in the Australian market<sup>6</sup> and now having the highest brand penetration with one in four households using our products<sup>7</sup>.

Blackmores continues to innovate with the launch of Blackmores Vegan Omega-3 Oil, Vitamin C + Elderberry Gummies, Probiotic Plus range and nasal sprays for cold and allergies. In animal health, PAW by Blackmores OsteoAdvanced was launched.

## **INTERNATIONAL MARKETS (FORMERLY "OTHER ASIA")**

Our International markets continue to deliver consistent and strong growth, with net sales 30% higher than the previous year. Malaysia and Singapore saw double-digit growth and Thailand experienced significant growth in immunity products during the second half of the year. Indonesia grew 36% driven by distribution expansion into modern pharmacy and strong collaboration with our joint venture partner Kalbe Farma.

Blackmores continues to invest in our brand, including growing our team of Product Advisors across the region who play a vital role in promoting natural health and advice to consumers at point of purchase.

The successful growth of our infant formula business in Vietnam contributed \$20 million to revenue.

---

<sup>2</sup> Nielsen & IQVIA, RMS/Sell Out service, Vitamins and Dietary Supplements, Australia Grocery Pharmacy, Total Retail Sales, Fiscal Year 2020

<sup>3</sup> Australia's most trusted vitamin and supplement brand as voted by Australians in the 2009-2020 Reader's Digest Most Trusted Brand Survey

<sup>4</sup> Australian retail sales data provided by IQVIA Nielsen (18/7/2020) MAT

<sup>5</sup> Australian retail sales data provided by IQVIA Nielsen (18/7/2020) MAT

<sup>6</sup> Kantar Consumer Brand Health Tracking Study March 2020

<sup>7</sup> Nielsen Homescan 21/4/2020

## BLACKMORES CHINA

The China business unit comprises key export accounts and in-country sales. Total revenue for the year was down 16% to \$103m, compared to the prior year. Despite the impact of COVID-19 in China, our e-commerce market share gained 2%<sup>8</sup> during the second half.

Since December 2019, the emphasis has been on reshaping and revitalising our China product offering while at the same time resetting our engagement with the major e-commerce platforms. This included category captaincy with Tmall and an improved consumer experience with Kaola and JD.com.

Early signs are very positive with an outstanding 618 e-commerce event and recruitment and conversion on all platforms well ahead of the year prior.

The export business, impacted by regulatory changes and price discounting, was down 30% on the prior year.

## BIOCEUTICALS

We have seen consumer interest in practitioner brands sold through the pharmacy channel rise over the past three years. BioCeuticals remains the clear market leader in practitioner-only products in pharmacies with market share of 82%<sup>9</sup>.

BioCeuticals sales grew due to increased interest in immunity products, achieving the number one brand in the Cold & Flu segment. ArmaForce became the number 1 immune support product in Australia<sup>10</sup>. BioCeuticals increased their sales in the second half by 12% over the same period last year.

## BLACKMORES INSTITUTE

Blackmores Institute, the academic and professional arm of the Group, continues to demonstrate thought leadership in our industry. The Institute published a white paper investigating the evidence-based use of nutritional supplements and herbal medicines to support immune function, as well as a green paper in partnership with Tsinghua University on the mental wellbeing of Chinese career women which received 43.6 billion media impressions.

The Institute also launched a new podcast series 'Natural Health Simplified' offering practical science-based strategies for immunity and healthy living, which was strongly subscribed to by healthcare professionals and consumers alike.

The Institute continues to provide world-leading training to healthcare professionals, retail pharmacy staff and Blackmores employees through e-learning and our comprehensive, accredited CMed blended learning program for pharmacists.

## EBIT & CASH PERFORMANCE

EBIT was down \$29.4m (or 62%) on prior year. The decline in revenue impacted EBIT by \$10m, as increased sales by International and BioCeuticals were offset by declines in Australia and China.

At the half year we announced that the acquisition of Braeside had resulted in cost variances associated with product mix, capacity under-utilisation and increased raw material costs. At the end of the year, the combined adverse variance in Braeside was in line with February expectations of a \$10m full year EBIT impact.

Blackmores also experienced increased costs associated with higher sea and air freight due to COVID-19 and purchase price and material variances totaling \$7m in the second half.

The costs associated with our label refresh were in line with estimates and impacted the second half by the previously disclosed amount of \$7m.

---

<sup>8</sup> SmartPath Online Market Report June 2020

<sup>9</sup> IQVIA Scanout Data Domestic & Exporting Performance, Vitamins and Dietary Supplements, MAT to 13 June 2020

<sup>10</sup> Scanout Data Domestic & Exporting Performance, IQVIA MAT to 13/06/20

Blackmores increased provisions around stock in the half. However, this was offset by savings in travel and advertising costs, with most activity suspended as the market slowed down.

The Group delivered a full cash conversion ratio of 149.7%, due to effective net working capital management and a non-cash provision to address label transition inventory levels.

## **PROGRESSING OUR STRATEGY**

The Blackmores Group Growth Strategy 2023, launched in February, sets a clear vision for our future. Our strategic priorities are focused on winning with consumers and practitioners through the strength of our brands, and consumer growth platforms, fueled by consumer-led production innovation.

Implementing the plan is the focus of the team and we have made tremendous progress in a short period of time.

### **Build a world-class organisation**

We are undertaking the transformation that's required to enable us to unlock organisational capacity, build capability and invest to grow.

We have established lean and agile product development and Group marketing teams focused on building global strategies and tailored innovation for our consumer growth platforms.

Our Operations team has started work to identify areas across our business where we can unlock the most value. Tracking and measuring initiatives of leading value position will improve efficiency and reduce waste.

The recent consolidation of all warehousing to Bungarabee and under one supply and IT platform will support improved customer service levels and order response times.

Investment in our Braeside manufacturing facility started with a new high-volume, state-of-the-art tablet press and continuous coater, a technological first in Australia.

### **Rejuvenate Blackmores Australia**

The second half of FY20 saw us starting to build important capabilities in strategic revenue management; we began to optimise our investments in trade spend while also announcing to our customers a price increase to offset the cost increases of raw ingredients. The increase is effective mid Q2 FY21.

Launching in the second half of FY21 is an exciting new digital shopping experience that delivers tailored vitamin solutions straight to your door. Blackmores (Bmore) packs are curated based on personal health needs.

### **Deliver new growth**

As shared at the half year results, India represents a very attractive market and the Group will continue plans to enter the India market in FY21. These plans have slowed due to the onset of COVID-19. However, Blackmores Group's India entity has been formed and planning for a test market entry continues.

The Group's business and joint venture with Kalbe Pharma in Indonesia continues to perform well ahead of expectations and is delivering strong year-on-year growth. Planning is underway to further customise our product range to better suit the cultural needs of Indonesian consumers including Halal certification.

### **Win with the modern career woman in China**

We have established an Innovation Centre in Shanghai where we will integrate local market insights. In September, we will bring to market a new premium line of products specifically designed for our modern parenting consumer growth platform to meet consumer needs in China.

## **SUSTAINABILITY**

In May 2020 Blackmores committed to Net Zero emissions by 2030. This ambition aligns to our need to respect the precious natural resources on which our business depends, as well as our desire to be leaner

and greener in how we work. In FY21 and in subsequent years we will accelerate our emissions reduction program by deploying equipment efficiency upgrades, maximizing our use of renewables and through sustainable procurement practices.

## **BUILDING OPERATIONAL EFFICIENCY**

To support the delivery of our growth, a number of initiatives are underway to improve efficiencies and strengthen capabilities.

The acquisition of Braeside has given us greater control over our supply chain and will strengthen our research and development capabilities. Having our own manufacturing facility will protect important product registrations in Asia growth markets and ensure that we can continue to control the high quality of the products.

Over the next three years the business is committed to achieving \$50 million in efficiency savings (annualised savings by 2023 compared to the 2020 base year) with a focus on cost of goods and operating expenses.

We have laid the foundations for these efficiency programs in the second half of FY20 and we project that they will contribute to profit growth in FY21 and beyond.

## **CONTINGENT LIABILITY**

Blackmores has been in discussions for over three years with a foreign authority in relation to export classification codes and related exemptions claimed under free trade agreements from 2009 to 2014. The relevant authority recently issued assessments for approximately \$11 million (AUD) and Blackmores is pursuing all legal avenues of objection. No legal liability currently exists in that jurisdiction and, given the uncertainty, no liability has been recorded in the accounts for FY20.

## **DIVIDEND**

The Directors resolved on 24 August 2020 to not pay a final dividend in respect of the period ending 30 June 2020. While our cash position and balance sheet is strong, the continued uncertainty in the current global climate underpins this decision.

## **OUTLOOK**

Despite the additional cost variances which will arise from our first full year of Braeside manufacturing ownership, we anticipate full year profit growth in FY21. This profit growth will come predominantly from the second half of the fiscal year, but given the many uncertainties associated with COVID-19 we are not providing full year profit outlook for FY21. Having said this there is great confidence from the Board and Management that by implementing our strategic priorities, simplifying our operating model and delivering consumer led innovation consistently that will put the company back on the path to sustainable, profitable growth and restore future dividends.

Yours faithfully,



**Alastair Symington**  
Chief Executive Officer

## **MEDIA CONTACT**

Raffaele D'Alisa  
Head of Strategic Communications  
M +61 435 504 017

## **INVESTOR CONTACT**

Michelle Gough  
Group Financial Controller  
and Investor Relations Manager  
M +61 466 398 983



## Results at a Glance

<b>Results (\$000s)</b>	<b>This</b>	<b>Last</b>	<b>%</b>
<b>(Full Year Results)</b>	<b>Year</b>	<b>Year</b>	<b>Change</b>
Revenue	568,353	588,914	(3.5%)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	50,676	87,322	(42.0%)
Earnings before interest and tax (EBIT)	29,383	76,554	(61.6%)
Net interest expense	5,913	4,995	18.4%
Profit before tax	23,470	71,559	(67.2%)
Income tax expense	7,411	20,947	(64.6%)
Profit after tax from continuing operations	16,059	50,612	(68.3%)
Profit after tax from discontinued operation	2,962	2,818	5.1%
<b>Profit/(Loss) attributable to non-controlling interests</b>	<b>907</b>	<b>(39)</b>	<b>(2,426.7%)</b>
<b>Profit attributable to owners of Blackmores Ltd</b>	<b>18,114</b>	<b>53,469</b>	<b>(66.1%)</b>
<b>Results (\$000s)</b>	<b>This</b>	<b>Last</b>	<b>%</b>
<b>(Half 2)</b>	<b>Year</b>	<b>Year</b>	<b>Change</b>
Revenue	274,871	279,864	(1.8%)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	15,317	33,652	(54.5%)
Earnings before interest and tax (EBIT)	3,909	28,135	(86.1%)
Net interest expense	3,371	2,750	22.6%
Profit before tax	539	25,385	(97.9%)
Income tax expense	1,956	7,444	(73.7%)
Profit/(Loss) after tax from continuing operations	(1,417)	17,941	(107.9%)
Profit after tax from discontinued operation	1,966	1,389	41.6%
<b>Profit/(Loss) attributable to non-controlling interests</b>	<b>677</b>	<b>186</b>	<b>264.2%</b>
<b>Profit/(Loss) attributable to owners of Blackmores Ltd</b>	<b>(128)</b>	<b>19,144</b>	<b>(100.7%)</b>

Other Key Items		30/06/2020	30/06/2019
Earnings per share (basic) <sup>1</sup>	cents	103.5	309.2
Dividends per share	cents	0.0	220
EBIT/Revenue <sup>2</sup>	%	5.2	13.0
Return on shareholders' equity	%	5.9	25.8
Return on assets	%	5.6	16.0
Cash generated from operations	\$m	75.9	51.8
Cash conversion ratio <sup>2</sup>	%	149.7	59.3
Net debt	\$m	37.3	94.5
Interest cover (net to EBIT)	times	5.0	15.3
Interest cover (net to EBITDA )	times	8.6	17.5
Gearing ratio <sup>1</sup>	%	10.9	31.3

<sup>1</sup> Includes Global Therapeutics which was held as a Discontinued Operation.

<sup>2</sup> Excludes Global Therapeutics which was held as a Discontinued Operation.