25 FEBRUARY 2020

Blackmores Group announces H1 results and outcomes of comprehensive strategic review which will lead to a shift to sustainable, profitable growth.

- **First-half revenue confirmed at $303 million and reported net profit after tax (NPAT) of $18 million.**
- **Plans underway to strengthen the Australian business, focus on improving gross margins.**
- **Decision to step up investments in China, deliver new growth in Indonesia and enter into India within 12 months.**

DEAR SHAREHOLDER,

Blackmores Limited (ASX: BKL) today announces the completion of our strategic review. Over the past few months, we have identified opportunities to focus our strategic effort and investments on fewer, more premium brands in a focused group of markets and channels.

To begin on a path to deliver sustainable, profitable growth over the next four years, we will simplify our operations and increase productivity over time.

Blackmores today also confirmed reported net profit after tax (NPAT) for the first-half of FY20 of $18 million, down 47% compared to the prior corresponding period (pcp), with revenue of $303 million, down 5% on pcp. This announcement is broadly in-line with the market update provided on 12 February 2020.

STRATEGIC PRIORITIES

Blackmores Group will apply the right balance between delivering new growth platforms while fixing our core business. The strategy sets four priorities for the Group:

1. Rejuvenate Australia
2. Leverage unique manufacturing and partnership capabilities to drive new growth in Indonesia and India
3. Design for the Modern Career Woman in China
4. Build a world-class organisation

Further detail on our Company strategy and priorities is included in the Half-Year Results Investor Presentation released today. The strategic review process has defined an exciting and clear direction for the Group.

We confirm today that the Blackmores Group sales performance in the first-half has been broadly in-line with expectations and our brand health metrics are very strong. However, there is acknowledgement that our costs have increased at a greater pace and our structure has become overly complex, which is the responsibility of the new Executive Team to fix.

BLACKMORES | GROUP

With our renewed strategy we are making clearer choices that set the business on a stronger footing for the long-term that will free the Group to focus on what matters – delighting consumers, improving natural health literacy and prioritising growth.

We will step up our investments in Asia by designing natural health care solutions for the modern career woman, strengthen and rejuvenate Australia as the engine, and simplify our structure and brand offering. We will leverage our unique manufacturing and partnership capabilities to drive new growth in Indonesia and India, and key to this will be to build a world-class global organisation.

Together with my new management team, we have established a clear vision for the future of the Group and we are confident our strategic choices will deliver significant long-term value for shareholders.

1) Rejuvenate Australia

Rejuvenate Blackmores Australia is focused on growing the Group's top-line revenue in complementary medicine, along with establishing strategic revenue management disciplines across the Group to improve profitability.

The three key levers are:

1. Developing a superior consumer experience at every touchpoint powered by superior natural health education.
2. Build capabilities in strategic revenue management, optimising channel mix, marketing ROI and maximising return from trade spend.
3. With digital tools, expand to a broader more active healthcare practitioner customer base, including pet care.

Pure Animal Wellbeing (PAW) by Blackmores

PAW by Blackmores is seen as the leading pet supplement brand in Australia[1] but as a Group we are yet to fully capitalise on this asset with little to no investment in recent years.

Pet care represents a growth opportunity for Blackmores Group in Australia ($3.9 billion market, +8.9% 2019-2024[2]). Pet care also represents a rapidly growing opportunity in China with the market forecast[3] to be $39 billion by 2024.

The supplement segment remains small with further headroom to expand, particularly in China where it remains significantly under-developed. The pet supplement market in China is currently[4] worth $US116m and forecast[5] to become $US260 million by 2024.

The Group is gathering pace in this category with the intention of launching a series of new innovations over the next 12 months. Further expansion of PAW by Blackmores into China and other key international markets is currently under review.

2) Leverage unique manufacturing and partnerships to drive new growth in Indonesia and India

<u>Indonesia</u>

Indonesia is on track to be the fourth largest economy in the world by 2050. The VDS category is growing fast with annual compound growth of 9.6% over the past three years[6].

The Group's business and joint-venture with Kalbe Farma is performing well ahead of expectations and delivering very strong year-on-year revenue growth.

The acquisition of the Braeside manufacturing facility provides the unique ability to customise our product range to better suit the cultural needs of Indonesian consumers.

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[1] Kantar Consumer Brand Health Tracking Study, December 2019
[2] Euromonitor International, Pet Care in Australia 2019
[3] Euromonitor International, Pet products in China, June 2019
[4] Euromonitor International, Pet Products in China, June 2019
[5] Euromonitor International, Pet Products in China, June 2019
[6] World Bank 2017. Euromonitor International 2019

Our partnership with Kalbe Farma will continue to provide local knowledge, infrastructure, distribution and on-ground access to new channels to grow our Indonesian market penetration.

India

Following the completion of extensive research and planning, the Group will commence our test market starting in FY21. India represents a very attractive market with the VDS market growing strongly and this trend is expected to continue.

3) Design for the Modern Career Woman in China

The strategic review has identified that China will become the lead market for global design and product development for our key consumer group – the Modern Career Woman. This will be a cultural and organisational shift for Blackmores away from the "Australia leads, Asia follows" approach.

The Blackmores Institute study 'Mental Wellbeing of Chinese Career Women' developed in partnership with Tsinghua University in Beijing revealed that the modern career woman is pressured with the tension of balancing work and home. This important and proprietary research will form the basis of future innovation.

The Group will implement a plan that will:

1. Focus on premiumisation of our existing range and relaunch Blackmores as part of the labelling transition to appeal to modern career women.
2. Grow our domestic offerings in new and existing channels e.g. Mum & Baby Stores.
3. Invest in a China Innovation Centre to deliver consumer insights, a superior consumer experience, and local product and package innovation.
4. Products and ranges developed for the most discerning Chinese woman will serve as a high value consumer proposition for the rest of the world.

4) Build a world-class organisation

Key to achieving our strategy is becoming a truly world-class organisation. The Group has chosen to step up its execution delivery to ensure we have a culture of great talent, leadership and high performance, and a structure that simplifies the way we operate.

The review has identified three key areas that will help build a world-class organisation:

1. Purpose-Led, Performance Driven Culture: our Vision is to connect every person on earth to the healing power of nature. This can only be done by balancing creativity and passion with operational discipline.
2. Education and Research**:** to foster a culture of natural health expertise across the Group and commercialise assets and our know-how.
3. Leading Value Position: to drive efficiency in our operations with supply chain optimisation, value engineering to reduce COGS, and support innovations in markets. We will also deliver cost efficiencies through better cost control and value for money in our operating costs.

Essential to building a world-class organisation is continuing to work towards an efficient cost base to free up cash to fund our strategic initiatives.

We remain focused on achieving cost-out and have identified initiatives to deliver $50 million in gross EBITDA benefits annually from 2023. Half of these benefits will be reinvested in key areas of focus including Asia people and marketing resources, as well as Group-wide strategic capabilities and innovation.

Summary

The Blackmores Group strategic priorities represent a credible plan to turn around the business and significantly improve the quality of our earnings in a more sustainable way. The Group remains resolute in restoring the trust of our shareholders and committed to doing whatever it takes to achieve this.

The Group has now completed a full portfolio review and one of the outcomes will be to continue to advance partnerships as a growth accelerator in areas such as distribution, better regulatory understanding and to access consumers directly for emerging markets.

In addition, the Group is seeking to divest non-core brand assets where we believe new owners can take these great brands to the next level. Divesting non-core brands will allow the Group to free up resource and efforts and help us deliver on our strategy.

HALF YEAR FINANCIAL RESULTS

Australia and New Zealand

Blackmores remains the number one VDS brand[7] in Australia and we continue to benefit from a strong pipeline of new products, such as new additions to our probiotic range and Vitamin C + Elderberry Gummies.

In October, Blackmores completed the acquisition of the Catalent manufacturing facility in Braeside, Victoria. The acquisition of this world-class facility provides Blackmores with far greater control over our supply chain and significantly strengthens our research and development capabilities.

Revenue in Australia and New Zealand of $115 million was down $29 million (or 20%) on the previous corresponding period (pcp).

The earnings from our business in Australia and New Zealand declined in the half with earnings before interest and tax (EBIT) of $15 million, down 55% on pcp.

Contributing to this decline was regulatory change in China which impacted revenue in Australia, and additional material and packaging costs.

Blackmores Asia

Revenue reported in the Other Asia market segment was up 29% overall, with strong growth in markets such as Malaysia (up 9% in local currency) and Indonesia (up 45% in local currency).

EBIT for Other Asia was up 70% during the half, due to increased revenue performance, cost management, strong revenue growth of infant formula and a weaker Australian dollar.

Blackmores China

In November, Blackmores once again had a major presence at the China International Import Expo (CIIE) in Shanghai. The CIIE is a signature initiative of the Chinese Government and a clear demonstration of its commitment to supporting global trade.

Overall revenue recorded in our China segment declined during the half, down 6% on pcp. In-country revenue grew slightly, up 2%. EBIT in the China segment declined 58% in the period.

The result was impacted by higher material and packaging costs and provisions for risk of stock obsolescence and receivables.

BioCeuticals Group

The BioCeuticals brand continues to be Australia's clear market leader of practitioner-only products[8], with revenue growing 6% during the half. However, overall revenue for the BioCeuticals Group segment (which includes the BioCeuticals, IsoWhey and Global Therapeutics' brands) was flat during the half.

BioCeuticals continues to have a strong pipeline of new product development. Launches during the half included PEA Liquid (a clinically trialled ingredient for neuropathic pain relief) and Calm Bursts – chewable capsules made from kava for the symptoms of mild anxiety and stress. Extensions to the digestive range included Collagen Activ, PepZin Pro and PreBiome Fibre.

BioCeuticals' world-first medicinal cannabis trial, conducted in conjunction with Endeavour College of Natural Health, concluded in November 2019 with the last patient completing their treatment. Results from the trial are expected to be published in April 2020.

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[7] Nielsen total VDS domestic market data MAT to 18/01/2020
[8] Nielsen total practitioner VDS market data MAT to 18/01/2020

Blackmores Institute

The Blackmores Institute research program contributed strongly to the Group during the half, working to build an even stronger evidence base to support two popular Blackmores products – Executive B Stress Formula and Vitamin E Cream range. An additional study, supported by the Institute, reconfirmed the benefits of fish oil for cardiovascular and cerebrovascular function.

The Blackmores Institute's education services received recognition for world-class excellence at the prestigious Brandon Hall Group awards, and locally for the second year in a row at the LearnX Impact and Australian Institute of Training and Development awards.

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

Dividend

As announced earlier this month, the Directors resolved on 11 February 2020 to not pay an interim dividend in respect of the period ending 31 December 2019. Cash will be conserved for operations and growth operations.

OUTLOOK

Revenue in the second-half is expected to be similar to that achieved in the first-half, though the significantly higher costs associated with manufacturing and other factors including Coronavirus will have a material impact on the FY20 result. Directors therefore anticipate full-year NPAT will be in the range of $17 million to $21 million.

Despite challenges in the second-half, the Board and new management team are very confident and optimistic about the long-term future of Blackmores.

Blackmores' brand metrics are the strongest they have been for many years. We have the number one market position in Australia and a number of Asian markets, and we are quickly building a much stronger team in China.

Since the new management team has been in place, we have worked to develop a solid and credible plan for the business going forward. We are building our capability in strategic revenue management which will help stabilise pricing across multiple markets and build back the margin we need to invest in brand and innovation.

Your faithfully,

Alastair Symington
Chief Executive Officer

MEDIA CONTACT
John O'Doherty
Head of Public Affairs
M: +61 402 047 852

INVESTOR CONTACT
Dee Henz
Group Investor Relations Manager
M: +61 414 654 007

RESULTS AT A GLANCE – HALF-YEAR TO 31 DECEMBER 2019

Results ($000s)	This Year	Last Year	Change %
Revenue	302,698	319,389	(5.2%)
Earnings before interest, tax, depreciation & amortisation (EBITDA)	36,827	55,784	(34.0%)
Earnings before interest and tax (EBIT)	26,884	50,477	(46.7%)
Net interest expense	2,542	2,245	13.2%
Profit before tax	24,342	48,232	(49.5%)
Income tax expense	5,870	14,132	(58.5%)
Loss attributable to non-controlling interests	230	(225)	(201.9%)
Profit attributable to owners of Blackmores Ltd	18,242	34,325	(46.9%)

Other key items		31/12/2019	31/12/2018
Earnings per share (basic)	cents	104.9	198.9
Dividend per share	cents	-	150
EBIT/Revenue	%	8.9	15.8
Return on shareholders' equity	%	8.4	16.4
Return on assets	%	5.1	10.7
Cash generated from operations	$m	46.6	33.6
Cash conversion ratio (adjusted to remove RPA)	%	64.0	60.3
Cash conversion ratio	%	126.4	60.3
Interest cover (net)	times	10.6	22.5
		31/12/2019	**30/06/2019**
Net debt*	$m	119.3	94.5
Gearing ratio*	%	35.6	31.3

* Comparative period is 30 June 2019