

ASX Announcement

23 August 2019

FULL YEAR 2019 FINANCIAL RESULTS

Financial Highlights

- Net revenue of \$149.5m, supported by strong USA sales momentum
- Second half revenue growth of 19.5% revenue growth on 1H19
- Underlying EBITDA¹ of \$21.3m in line with May update on strong H2 growth
- Gross margin stabilising with improvement in 2H19
- Group refinance of debt facilities, extended to July 2022 at improved margins
- Fully franked dividend of 2.7 cents per share

Operating Highlights

- Dave Fenlon appointed Group CEO and Managing Director
- Sukin (+4.4%) and Andalou Naturals (+0.6%) growth outperforming natural category (-3.7%) to increase share in home markets
 - Sukin selling in 448 new USA doors; 318 new domestic doors; strong double digit growth recorded in UK, Canada, New Zealand, Malaysia, Singapore and China
 - Mineral Fusion successfully rebranded with revenue growth of 37.5% in H2
 - Andalou Naturals completed successful trial in Priceline
 - Nourished Life ready to sell internationally after systems upgrade; 29% increase in members during FY19
- Capacity to process up to 3,300 eCommerce orders in a single shift
- ERP operational in Australia; implementation underway in USA

Melbourne, Australia – BWX Limited (ASX: BWX or “the Group”) today announced its Full Year 2019 financial results for the period ended 30 June 2019. The Group recorded underlying EBITDA of \$21.3m in line with the May 2019 trading update. Net profit after tax was \$9.5m.

Commenting on the result, BWX Managing Director and Group CEO, Mr Dave Fenlon, said:

“While 2019 presented challenges that are reflected in our financial outcomes for the year, our overall brand health remains strong. The positive sales momentum in the USA, where we continue to outperform the Natural category, highlights the strategic importance of our multi-brand selling model across distribution channels, geographies, product categories and price points.”

“We enter the new year with increased capability and a clear strategic roadmap to deliver a turnaround in our performance. Through disciplined prioritisation of our end markets and targeted investment in

¹Underlying EBITDA is a non-IFRS measure that excludes non-recurring items relating to acquisition and restructuring expenses of \$1.5m

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our operational infrastructure to drive efficiency, we can free up capital and resources to pursue growth opportunities.”

“BWx remains well positioned with category leading brands underpinned by material growth trends favouring natural products. The Group will continue its investment in brand building, process improvement, capability and innovation to drive deeper consumer penetration and basket size supporting double digit revenue and EBITDA growth in FY2020.”

FY19 FINANCIAL PERFORMANCE

Revenue and Brand Review

Group net revenue for FY19 was \$149.5m. The Group achieved revenue growth of 19.5% in the second half versus 1H19. The full year revenue outcome was driven by strong sales momentum in the USA market, particularly the performance of Andalou Naturals, while Sukin revenue was lower due to the impact of non-repeating short term promotions.

Net revenue (AUD millions)	FY18	FY19	% of Group Revenue
Sukin	\$65.8	\$52.8	35.3
Andalou Naturals	\$30.3 ¹	\$48.6	32.5
Mineral Fusion	\$30.3	\$24.6	16.4
Nourished Life	\$18.6 ²	\$20.9	14.0
Other	\$3.7	\$2.6	1.8
Total	\$148.7	\$149.5	100

¹Reflects sales revenue under BWx ownership: 8 months of the 2018 Financial Year

²Reflects sales revenue under BWx ownership: 9.5 months of the 2018 Financial Year

Sukin

Sukin net sales were \$52.8m, a decline compared to the prior year due to the non-repeating unprofitable promotions and the stabilisation of stock levels in the channel over the period. Encouragingly, scan-data shows Sukin is outperforming the Natural segment in pharmacy with 4.4% growth versus -3.7% for the category.

Sukin is now selling in 448 USA doors in both channels of Natural and Total, and 318 new Australian doors, including Big W and Target, with limited cannibalisation across channels as Sukin becomes more widely available for Australian consumers. The brand continues to grow in line or faster than the market in both categories of Facial Skin and Hair underpinned by successful new product launches, innovative marketing, and distribution gains.

Internationally, Sukin recorded double digit sales growth in UK, Canada, New Zealand, Malaysia, Singapore and China. In China, the decision to align with a single trading partner combined with targeted investments in marketing has seen the Sukin business grow in the market since January 2019. While the China influenced sales currently represents less than 10% of group revenues, there remains significant revenue opportunities in this market and BWx will continue to learn and adapt to ensure the brand remains relevant for Chinese consumers, to support further growth. The business has not been materially impacted by the Daigou postal tax regulation.

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Andalou Naturals

Andalou net sales were \$48.6m, demonstrating significant growth year-on-year as the brand continues to outperform in its home market of the USA. In the USA Whole Foods Market, where it commands the #1 Natural retailer position, the brand experienced 19% growth in FY19. This growth is expected to continue with the recently launched Hemp Stem cell derived CannaCell collection (launched in June 2018) representing 21% of total Andalou sales in Facial Skin Care, a huge endorsement of the strong level of consumer acceptance of the brand. This sub-brand is expected to continue to accelerate as it is exposed to the mass channel.

Following its launch in Priceline, there are plans for the continued roll out of Andalou in the Australian market following a positive consumer reception. While still in its infancy in Australia, the brand is overtaking several established natural brands to assume a number 11 ranking in the Natural category.

Mineral Fusion

Total Mineral Fusion sales were \$24.6m, a decline compared to the prior year. 2H19 sales revenue increased 37.5% on the prior corresponding period signalling regained momentum following its packaging re-launch in January 2019 and successful sell-in to the mass grocery channel in the USA.

There is strong upside potential for Mineral Fusion in Australia following a successful Priceline trial indicating channel expansion in Australia.

Nourished Life

Nourished Life sales in FY19 were \$20.9m. The 2H19 performance reflected a measured increase in daily orders. In an encouraging sign, the platform's membership base continues to strengthen with 29% growth year-on-year to 300,000. The Loyalty Club also grew 10% during the half.

Nourished Life is strategically important to BWX's growth given it represents the leading digital platform for deep consumer insights on natural wellness and beauty trends. It adds significant weight to the company's understanding of consumers, channels and market dynamics. Investment in the platform continues to improve user experience including website upgrades including international transactions and the offer of direct international shipping.

Other revenue

Other revenue was \$2.6m in FY19 and included non-core owned brands, third party manufacturing and third party distribution arrangements.

OPERATIONAL AND STRATEGIC DEVELOPMENTS

Capability

In the period since May, BWX has added significant capability across the business starting with the appointment of Dave Fenlon as Group CEO and Managing Director who started on 1 July 2019. Dave is a highly experienced retail CEO who brings an intimate understanding of our product mix, multi-channel strategy and international markets.

He will be supported by further capability across governance, sales and marketing and new leadership in the USA with the appointment of a President of BWX USA, with responsibility for continuing the strong sales momentum reflected in our financial results.

Andalou Natural founders, Stacey Kelly and Mark Egide, will be retiring from the business with the appointment of the USA President. They have played an active role in creating a strong US leadership team to support and drive growth in North America.

Operating Infrastructure

During the year BWX made strong progress updating the warehouse and platform systems which has improved capacity for processing orders and is expected to increase visibility and efficiency around stock levels to support future growth.

The ongoing rollout of a new Enterprise Resource Planning (ERP) technology platform, the central organisational planning system that connects all business processes from procurement, production and warehousing to shipping and sales is beginning to deliver benefits across the Australian operations and its deployment is now underway in the USA.

The streamlining of one system on a single, global platform is expected to improve decision-making, resulting in margin improvement, smarter use of working capital and cost savings.

Strategic Priorities

BWX has cemented the key strategic priorities underpinning the business direction and turnaround, including how the Group will measure success. The key initiatives under BWX's strategic priorities are outlined as follows:

Connect to Consumers

- Invest more in marketing – speak directly to the consumer
- Reinforce our brand values
- Invest more in New Product Development to serve the consumer
- Leverage Nourished Life platform to go direct to the consumer

Go Global, Go Mainstream

- Grow natural segment. Compete with mainstream skincare
- Build customer and influencer base in China around key brands: Sukin, Andalou and Mineral Fusion
- Targeted launches in new markets. Take Nourished Life international. Launch Sukin in Germany
- Invest in mass channel via stronger supermarket and specialty retailer relationships in key geographies
- Objective to have a \$50m supermarket skincare business in Australia and a \$75m conventional and mass skincare business in the USA

Get Clean & Get Healthy

- Focus on operational efficiency
- Invest in scalable systems and processes to support growth
- Ensure best practice governance

Invest in Ourselves

- Build capability – invest more in talent and training

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- Lift Net Promoter score to 67%+
- Be an employer of choice

FINANCIAL REVIEW

Gross profit margin

Gross profit margin improved 120 basis points in 2H19. The full year margin was impacted by an increased proportion of net revenue from acquired businesses (Andalou Naturals and Nourished Life), which operate at lower margins. It was also skewed by the impact of overstocking and promotional frequency to clear channels of stock from prior year.

Operating expenses

The increase in operating expenses is primarily attributable to the 12 months' contribution of the acquired businesses during FY19. The ERP became fully operational in Australia and is now delivering improvements in efficiency, forecast accuracy and group margin visibility.

Net profit after tax (NPAT)

Compared to the prior corresponding period, underlying NPAT (which excludes non-recurring items relating to acquisition and restructuring expenses of \$1.5m) declined from \$24.2m to \$11.0m, while reported NPAT was \$9.5m.

Cash generation and working capital

BWX delivered a significant improvement in operating cash flow in 2H19 of \$11.0m compared to -\$7.3m in 1H19. The Group reduced payables by \$7.0m, whilst maintaining a healthy cash position.

A level of capital expenditure that enables improvements in manufacturing and talent capabilities is critical to delivering longer-term cost savings, margin and smarter working capital.

Balance sheet

Financial liabilities reduced due to a \$9.2m reduction in deferred consideration/payments on acquisitions, offset by movement in working capital facility.

As at 30 June 2019, the Group re-financed its debt facilities and extended the facility until July 2022, at improved margins. The refinancing has reinforced the continued support of our financiers and provides long term stability and flexibility to pursue growth opportunities. The Group remains well within its banking covenants.

Dividend

A final fully franked dividend of 2.7 cents per share has been determined for FY19 and is within the dividend payout guidance of 35-50%.

Outlook

BWX remains well positioned with category leading brands underpinned by material growth trends favouring natural products. The Group will continue its investment in brand building, process improvement, capability and innovation – driving deeper consumer penetration and basket size – to support 20-25% revenue and 25-35% EBITDA growth in FY2020.

ENDS

BWX will host a Results Briefing on Friday 23 August at 9.30am AEST. Participants can dial one of the numbers below.

Participant toll: +61 2 8038 5221
Participant toll-free: 1800 123 296
Conference ID: 5591599
To ask a question, participants will need to dial “*1” (star, 1) on their telephone keypad.
International dial-in details: these numbers are toll-free dial-in numbers for each country listed below. For countries not listed below, the Australian Participant Toll number listed above can be dialled. To ask a question, participants will need to dial “*1” (star, 1) on their telephone keypad.
Canada 1855 5616 766
China 4001 203 085
Hong Kong 800 908 865
India 1800 2666 836
Japan 0120 994 669
New Zealand 0800 452 782
Singapore 800 616 2288
United Kingdom 0808 234 0757

A playback of the conference call will be available at a later date and will be posted on our website.

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