



ASX / BWX

ASX Announcement

21 February 2018

1HFY18 COMPANY AND FINANCIAL RESULTS

Melbourne, Australia – BWX Limited (ASX: BWX) is pleased to report its first half year 2018 (1HFY18) financial results, representing:

INVESTING FOR CONTINUED GROWTH; AND DEVELOPING A GLOBAL BUSINESS;

- Revenue of \$67.2m, representing a 79.2% increase versus prior first half year 2017;
- Gross profit of \$40.0m, representing a 63.9% increase versus prior first half year 2017;
- EBITDA (normalised) ⁽¹⁾ of \$17.5m, representing a 36.7% increase versus prior year first half 2017;
- NPAT (normalised) ⁽¹⁾ of \$10.7m, representing a 30.5% increase versus prior first half 2017;
- NPAT (statutory) of \$5.4m, representing a 34.1% decrease versus prior first half 2017;
- Basic EPS (normalised) ⁽¹⁾ of 10.4 cents, representing a 19.5% increase versus prior first half 2017;
- The Company declares an interim fully franked dividend of 3.25 cents per share, representing a 30% increase versus prior first half 2017; and

⁽¹⁾ normalised amounts exclude \$5.5 million of one-off costs in relation to the acquisitions of Andalou Naturals and Nourished Life, along with finalisation of Mineral Fusion acquisition matters and restructuring costs related to Company's transition from third party manufacturing and the reorganisation of the Australian distribution model.

BWX Chief Executive Officer, Mr John Humble, said "Our recent acquisitions along with the continued organic sales growth in the business provided the Company with a near 80% growth in sales for the first half 2018 and further strengthens the platform to support the future growth in the business. This continued growth in the sales of BWX own branded product during the period has increased the Company's underlying profits by 36.7%.

Earnings Highlights for the BWX Limited Group			
	1HFY17	1HFY18	% growth
	\$'m	\$'m	
Revenue	37.5	67.2	79.2%
Gross profit	24.4	40.0	63.9%
Operating expenses	-11.7	-23.3	99.1%
EBITDA (normalised) ⁽¹⁾	12.8	17.5	36.7%
EBITDA (statutory)	12.8	12.0	(6.2)%
Net profit after tax (normalised) ⁽¹⁾	8.2	10.7	30.5%
Net profit after tax (statutory)	8.2	5.4	(34.1)%
Gross margin	65.1%	59.5%	(560) bpts
Basic EPS (cents per share) (normalised) ⁽¹⁾	8.7	10.4	19.5%
Basic EPS (cents per share)	8.7	5.2	(40.2)%
Diluted EPS (cents per share)	8.2	5.0	(39.0)%
Net cash/(debt)	3.6	(48.6)	n/a

⁽¹⁾ EBITDA, NPAT and EPS have been normalised to exclude \$5.5 million of one-off costs in relation to the acquisitions of Andalou Naturals and Nourished Life, along with finalisation of Mineral Fusion acquisition matters and restructuring costs related to Company's transition from third party manufacturing and the reorganisation of the Australian distribution model.

Further Mr Humble comments, "We are very pleased with the performance of the brands and businesses we have recently acquired, and whilst these acquisitions were only recently completed, the business has sought to accelerate their integration within the BWX group. We have continued our strategy of building a global business and effectively developing and leveraging the capabilities of the group across the markets in which we operate, a strategy which is being validated by the ranging of the Andalou Naturals brand in Australian pharmacy during April."

"In the first half we have continued to see growth in our domestic market driven in part by the timely move into the grocery channel in Australia, with the initial ranging of the Sukin brand which has had the effect of increasing the brands awareness and introduced the brand to new consumers not previously familiar with Sukin. During this time, we have continued to see growth in Sukin's market share in the Australian pharmacy channel."

During 1H18, we have continued to implement our long-term strategies for markets such as the UK, China, Canada and New Zealand, along with developing new markets such as India where Sukin branded products have now been registered.

The acquisition of Andalou Naturals, in combination with Mineral Fusion, has been transformative for BWX's US platform, creating the opportunity to streamline and rationalise US operations and facilities. This provides BWX with a level of scale in the US to effectively operate in that market and provides significant strategic advantage as BWX continues to expand the export reach of Sukin and other BWX brands. These US acquisitions provide a significant opportunity to increase the distribution of both Andalou Naturals and Mineral Fusion products in Australia and other geographies where we have an existing presence. This is evident with the ranging of Andalou Naturals in Holland and Barrett in the UK, and recently confirmed ranging in one of Australia's leading beauty retailers.

The strategic acquisition of the Nourished Life online platform provides the business with proven social media and digital capabilities which can be leveraged across our business and brands in this increasingly important channel. This acquisition also allows the Company to access the upstream

margin generated by retail sales of the wholly owned Life Basics branded product, along with the Andalou Naturals and Mineral Fusion branded products, which also retail on the platform.

During 1H18 we saw an increase in promotions across all BWX brands and coupled with the initiatives in the Australian grocery channel, we have further increased our marketing spend in the half. We will continue with this marketing investment in future periods, aligning spend with key product launches and initiatives in new and existing territories across all brands.

As part of the long term strategy, we have continued the reduction in third party manufacturing as we complete the transition to a manufacturer of own branded product. We have transitioned our Australian distribution model to national wholesalers in order to more effectively service the domestic market. We have maintained our capex programme at a cost equivalent to between 1% and 2% of net revenues. As previously mentioned, this programme is designed to provide both on-going productivity gains and increased production capacity to stay ahead of our forecast growth. Within this capex programme we will be implementing an ERP system across the group during calendar 2018.

Nourished Life Acquisition

On 15 September 2017, the Company completed the acquisition of the Nourished Life business for initial consideration of \$20m, comprising cash consideration of \$16m and \$4m of consideration in the form of BWX 741,057 shares issued at \$5.40 per share. The cash component of the consideration was funded by an institutional placement of \$17m.

Nourished Life, based on Sydney's northern beaches, is recognised as a trusted, authentic online retail platform, exclusively focused on natural and organic skincare and health and wellbeing products. Through the extensive and strategic use of its social media and digital assets across Facebook, Instagram, Nourished Life blog, Nourished Life digital magazine, online store and website, in conjunction with traditional print and electronic media, Nourished Life has quickly grown to become one of Australia's leading natural and organic online retail brands with a large and engaged community of followers.

In 1H18 we have worked closely with Nourished Life's management to identify capital investments to create economies of scale and allow the business to expand at a faster rate. We are currently in the planning stage of relocating the business to a larger premises to cope with the increased order volume the business has been experiencing since acquisition. We are encouraged by the progress we have achieved in the three plus months of ownership.

Andalou Naturals Acquisition

On 31 October 2017, the Company completed the acquisition of Andalou Naturals for initial consideration of US\$82.2m, including working capital and cash of US\$9.7m, plus potential additional amounts subject to Andalou Naturals achieving particular financial milestones. The initial consideration comprised US\$67m cash and US\$15.2m equity from the issue of 3,105,885 shares at an issue price of AU\$6.38 per share. The cash component of the initial consideration was funded via a fully underwritten 1 for 5.7 pro-rata accelerated renounceable entitlement offer which was completed during the period.

A California-based business, Andalou Naturals is a leading growth brand of skin, hair and body care brand inspired by innovative product development and quality natural ingredients. Andalou Naturals has a strong distribution network in the US with a presence across a number of key retailers and is the number one selling facial skin care brand in the US natural channel.

The Company incurred AU\$5.2m in one-off costs associated with the acquisition of the Andalou Naturals business which have impacted the statutory NPAT and EPS for the Company's 1HFY18 results. Together, with the acquisition of the Mineral Fusion brand of natural cosmetics in the US which completed on 30 June 2017, the group has what it considers to be the necessary scale to operate effectively in the US.

Final Dividend Declared

The Directors are pleased to declare an interim fully franked dividend to shareholders of 3.25 cents per share, having been determined in respect of the half year ended 31 December 2017, payable on 6 April 2018. The dividend is in line with the Company's continuing annual dividend payout ratio guidance of between 35% and 50% of NPAT.

Full Year 2018 Outlook

Having concluded this recent period of increased investment and corporate activity, the Company is pleased to provide the following trading update. Looking ahead to the balance of FY18 and beyond, the Company is now better positioned than ever before to maintain growth and deliver its vision of developing a truly global personal care business.

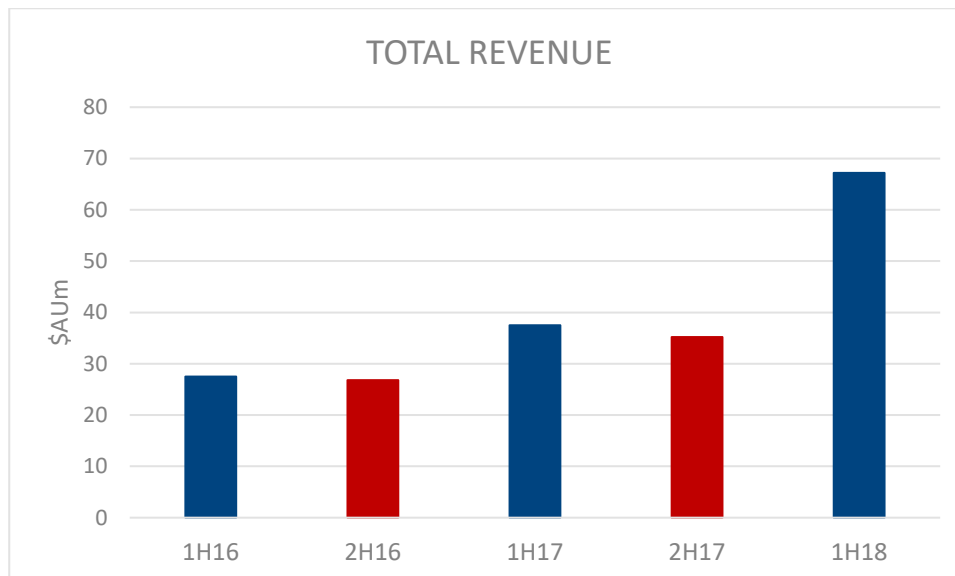
The continued success of BWX's brands in the domestic and growing international markets, combined with full half contributions from recent acquisitions are expected to translate to a robust 2HFY18 of earnings in line with the Company's expectations. Following the investment in our US operations, the Mineral Fusion and Andalou Naturals brands are performing as expected. Also in line with our revenue forecasts, Nourished Life is experiencing consistent growth in its order numbers, which is expected to be fully reflected in financial performance following the planned relocation of the business.

The decision taken by the Company to discontinue third party brand representation in order to concentrate its resources towards maximising the returns from its own brands following the introduction of a national distribution model is expected to result in a previously unbudgeted reduction in third party revenues of approximately \$6.5m, with approximately \$2.5m 1HFY18 and \$4m 2HFY18.

In consideration of the above, and assuming no change in market conditions or corporate activity, the Company is pleased to provide EBITDA guidance in the range of \$42m - 46m for FY18, representing an increase of between 60% - 74% on FY17.

1H18 Financial Performance

Revenue



Total net revenue for 1H18 grew to \$67.2m, an increase of 79.2% vs pcp. This includes:

- (a) a 17.1% growth in the total sales of Sukin product from the corresponding period of 1H17;
- (b) continued reduction in non-strategic third party activities saw this revenue source decrease by \$3.8m in 1H18;
- (c) the continued momentum in the growth for:
 - 1) a full six months of sales of Mineral Fusion product following the acquisition of Mineral Fusion on 30 June 2017;
 - 2) two months of sales of Andalou product following the acquisition of Andalou Naturals;
 - 3) approximately three months of sales in relation to the acquisition of Nourished Life; and
- (d) approximately three months of sales in relation to the initiation of the Sukin brand in the Australian grocery channel.

Gross profit margin

As highlighted during the period, the companies recently acquired generally have lower gross profit margins as compared to the historical BWX business. As a result, we have achieved a blended gross profit margin of 59.5% in 1H18 from 65.9% in 2H17 and 65.1% in 1H17. There has been no reduction in the core underlying gross margin from the pre existing business prior to completing the recent acquisitions. With the current integration plan being executed, coupled with the operational changes which will progress in the coming periods, we would expect an increasing trend in the gross profit margin over time post FY18.

It is important to note that the ranging of the Sukin brand in grocery has not been detrimental to domestic Sukin gross margins.

Investment in operating expenses for 1H18 (\$23.3m) increased as compared to 1H17 (\$12.7m) was in line with Company expectations. The primary drivers of this cost expansion were as a direct result of the acquisitions completed by the Company and increased investment in the form of:

- (a) new investment has been made into the US infrastructure and platform and the recently acquired Nourished life business;
- (b) the recruitment of additional resources and capabilities across the group;
- (c) a greater level of marketing and promotional activities in the form of increasing brand recognition in Australia for Sukin product and increased distribution for owned branded product across the group.

Operational costs for the existing business (pre acquisitions) has increased at a lower rate than the growth of the underlying business.

Other Expense Items

Depreciation and amortisation has increased during the period as a result of the recent acquisitions.

Finance expenses increased during the period due to the increased borrowing of the group, primarily resulting from the funding the acquisition of Mineral Fusion which completed on 30 June 2017. The Company repaid \$9.7m during the period to reduce this level of debt and the Company is expected to continue the repayment of group borrowings ahead of schedule.

During the period the Company has recognised \$5.5m of non-recurring acquisition and restructuring expenses. The acquisition costs related to the acquisition of Andalou Naturals and Nourished Life, along with finalisation of Mineral Fusion acquisition matters. Restructuring costs related to the Company's transition from third party manufacturing to a manufacturer of own brands and the change in the Australian distribution model to national wholesalers.

Cash generation and working capital

Net cash flows from operating activities for 1H18, benefiting in part from the reduction in aged trade debtors, and including the impact of the payment of \$14.2m in acquisition costs, interest and taxes was \$3.7m, which demonstrates a higher level of cash conversion compared to prior periods.

Capital expenditure

During 1H18 the Company invested approximately \$0.4m in the purchase of property, plant and equipment, which included the purchase of capital equipment required to ensure production capabilities remain ahead of the forecast growth in demand for BWX branded products. The level of capital expenditure is expected to remain within 1% to 2% of net revenues on an annual basis, inclusive of the costs associated with the implementation of a Company wide ERP system.

BWX Management will be hosting a Results Briefing on Wednesday 21 February 8:30am AEST.

Toll free dial-in: 1800 804 595

International dial-in: +613 8687 0650

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

-ENDS-

About BWX

ASX listed, BWX Limited is a vertically integrated developer, manufacturer, distributor and marketer of branded skin and hair care products with an emphasis on the natural segment of the beauty and personal care market.

The company owns, produces, and distributes under the Sukin, Mineral Fusion, Andalou Naturals, DermaSukin, Uspa, Edward Beale, and Renew personal care brands as well as Nourished Life online marketplace.

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