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Blackmores First Quarter results down, sales trajectory improving

Summary

- Group sales of \$149 million, 8.1% down compared to previous corresponding period
- Net profit after tax of \$12 million, down 46.6% compared to previous corresponding period
- Consumer demand remains strong both in Australia and internationally, and Blackmores is the clear market leader in Australia
- Australian sales were impacted by retailers reducing excess stock and changing buying patterns of Chinese exporters
- Blackmores China business contributed \$31m, up 220%, compared to previous corresponding period
- Blackmores Asia, BioCeuticals and Global Therapeutics all delivered strong growth

Dear Shareholder

Blackmores Limited (ASX: BKL) today reported first quarter Group sales of \$149 million, down 8.1% compared to the previous corresponding period. Net profit after tax (NPAT) was \$12 million for the quarter, down 46.6% on the previous corresponding period.

Though trading conditions were challenging at the start of the financial year, we finished the quarter in a stronger position than we started with improved sales and profitability momentum. Importantly, consumer demand remains high, though our profit result for the first quarter was impacted by softer sales in Australia primarily as a result of changes in the export market which previously was largely serviced through Australian retailers.

The lower Australian sales impacted our ability to recover the cost of our operational infrastructure which is reflected in our lower earnings before interest and tax. It is important we continue to focus on adapting our business and continuing to invest for longer-term growth.

Our China business, comprising in-country sales and sales from our new export division to service the Chinese market, delivered \$31 million, up 220% compared to the prior corresponding period. The rapid growth of sales through these channels is encouraging as it validates continuing demand for our products in China.

Blackmores Australia sales of \$68 million were down 40% compared to the prior corresponding period as Chinese exporters transitioned to new channels and Australian retailers worked through excess stock. We estimate the impact of reducing excess stock to be \$17 million with a further \$28 million resulting from changes to the way exporters buy through Australian retailers.

Around 20% of Australian sales in the first quarter are estimated to be to consumers in China. Pleasingly, underlying sales to Australian consumers for the first quarter were growing ahead of the category and Blackmores remains the clear market leader.

Sales of nutritional foods in partnership with Bega have been sluggish in the first quarter as the Australian market adapts to overstocking. The team is focused on launching into the China retail market later in the second quarter following the recent approval of labels that meet China's strict regulations.

We have had nearly three years of rapid growth over which time our expenses have increased to meet demand. We are in the process of realigning our cost structure to ensure it is appropriate to the size of our business, that it enables us to best serve our customers and that it still allows for investment in new platforms for growth.

In-country Asia sales were up 37%, contributing \$35 million. Direct sales to Asia were \$52 million for the quarter including almost \$17 million from Blackmores' new Chinese export division.

BioCeuticals sales are growing at more than 17% compared to the prior period. Their sub-brand IsoWhey was recognised with the Customer Satisfaction award in the highly competitive weight loss category at the Canstar Blue Awards in September.

Global Therapeutics has achieved pleasing sales momentum since Blackmores acquired the leading Australian Chinese herbal medicine company in May 2016 and continues to meet our expectations.

NEW MARKETS

Blackmores launched in Indonesia in September with encouraging early sales. The current range of 17 products is expected to grow to 29 core lines in more than 1,200 retail outlets with an established e-commerce presence by the end of the financial year.

Indonesia is another exciting opportunity for Blackmores with an increasing number of consumers taking a greater interest in health. This growing health literacy is coupled with a growing middle class. Our joint venture with Kalbe enables us to partner with leaders in health and nutrition with a strong understanding of and commitment to Indonesian consumers. Together we have established a sophisticated service model that provides excellent distribution to retailers and consumers across Indonesia.

OUTLOOK

As advised when we announced our full year results, our first quarter sales have been impacted by changes in market dynamics in Australia. Pleasingly, we entered the second quarter with an improving sales and profit trajectory, there are positive sales trends that indicate overstocking is easing, consumer demand remains robust and we have been able to capture significant new sales in China.

Whilst we don't expect to match last year's exceptional performance for the full year, we are pleased with the improving trends and are encouraged by new growth opportunities. At this stage, we anticipate a stronger second quarter compared to the first quarter sales and profit. The Board remains confident in the Group's strategic focus and long-term growth prospects.

Yours faithfully



CHRISTINE HOLGATE
CHIEF EXECUTIVE OFFICER



BLACKMORES

Results at a Glance

Quarter One Results (\$000s) (30 September 2016)	This Year	Last Year	% Change
Sales	149,042	162,228	-8.1%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	19,789	34,871	-43.3%
Earnings before interest and tax (EBIT)	17,823	33,130	-46.2%
Net interest expense	849	373	+127.6%
Profit before tax	16,974	32,757	-48.2%
Income tax expense	4,899	10,125	-51.6%
Profit for the period	12,075	22,632	-46.6%

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