The Asian Opportunity: a Blackmores case study

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Introducing Blackmores

Founded in Australia in the 1930s by pioneering naturopath, Maurice Blackmore

Listed on ASX in 1985. Current market capitalisation of approx. $500M and revenues of $215M in FY10 with profit growth of 17%

Entered Malaysia, Thailand, Singapore and Hong Kong markets in the 1990s, Taiwan in 2007 and Korea in 2010

Today a market leader in the natural health sector with a strong record of financial performance outperforming the market in all our major territories

Moved into new, purpose built campus in Warriewood in January 2009

Australia’s Most Trusted Vitamin and Supplement Brand
Track Record Of Delivering Strong Shareholder Returns

FY10 full year dividend grew 16%

F10 Total Shareholder Return 45%+

Continued strong outperformance versus ASX 300
In January 2009 At Blackmores We Faced a Number Of Strategic Challenges

- Top line growth was slowing down
- Competition was heating up & Asia posed a significant financial risk
- We faced a major operational move, and took on significant debt
- The AUS $ had fallen to 61c – 98% raw materials purchased overseas by our local manufacturers
- Australia experienced changing market conditions, with consolidation, regulation and political developments
- Share price was falling
The Situation For Blackmores In Asia – January 2009

• The markets had marginal growth and the region was only just profitable

• NPD was limited, and products were based on Australian formulations

In two markets we were solely dependent on one retailer

• In most markets we had consignment agreements, whilst regulations differed by market

• Gap in performance management and rewards for staff

• Brand for both Products and Merchandising had not been refreshed
Developed New Strategic Journey: Back to Growth

- Strengthening the foundations
  - Move to Warriewood
  - Reinvigorating Sales and Marketing
  - Building pipeline on new products
  - Improved discipline in planning
  - One Blackmores

- Positioning for sustainable growth
  - Deepen channel coverage in all markets
  - Develop our brand proposition
  - Focus on working capital optimisation

- Developing new growth opportunities
  - Leveraging the brand into new product adjacencies
  - Developing international expansion opportunities
  - Launch into new Channels

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Why Asia Was Important: Revenue Growth

- Our existing Asian Markets offer a $4 billion VDS opportunity
- Australian Brands are highly desirable, and our heritage and proposition bodes well with Asian philosophy
- We had a war chest of existing products which needed minor tweaks to fit Asian regulatory requirements
- Cost of acquisition is very attractive in local currencies
- Asia allows Blackmores to enter into new channels and launch new products
Why Asia Was Important: Control Of Our Future

• Get closer to Asian customers and gain control over inventory and planning

  Closer to the source of raw materials and drive innovation

• Build US $ “pegged” currencies to aid purchase of our key raw materials

• Opportunity to negotiate for some core ingredients protecting our competitive advantage

• Create a natural hedge to protect our core business from exchange rates movements
Why Asia Was Important: Diversifying Our Risk And Leveraging Our Talent

• In 2009 98.5% of our profits came from Australia

• We needed to learn new channels to market, including ‘Direct’, Pharmacy Dependent

• Products require significant research and upfront investment

• Ensure our Inventory was optimised

• Drive a common Culture across the Group to leverage and develop the skills and talent we have in the business
Our Strategy For Growth In Asia

- Own our customer relationships, open up the markets – end exclusivities
- Create local partnerships
- Reposition Brand, accelerate innovation
- Local Management, Blackmores & Australian sensitive
- Leverage resources from bigger countries to emerging markets
- Enter new markets to strengthen further growth and test new markets
- “One Blackmores”
How Have We Progressed So Far

- In Q3 our Asian sales were up 65%, Asia now equates to 20+%
- Although $ has reached exceptional highs we have continued to deliver strong performance
- Dec’10 entered Korea, our first market entry in 5 years, launched in major new channel, direct television selling
- Now employ almost 200 people, 40% of our staff, at just 11% of our labour expense
- Restructured treasury strategy, Singapore as a safe hub for regional banking
- Began negotiation and procurement of core ingredients using US $ to protect margins and scarce supplies
- High growth from Asia has driven efficiencies in “Warriewood” and protected margins in Australia
Summary – Asian Opportunity For Blackmores

- We are on a Journey...

- Asia has proven and will continue to be integral to our success

Success in Asia has protected and underpinned our performance in Australia, the two are inextricably linked

- Year 2 in we are pleased with our performance so far, more to do