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10 April 2019

Comvita acquires remaining 49% of its China Joint Venture

Comvita (NZX:CVT) announced today it has entered into a conditional agreement to acquire the remaining 49% of its China Joint Venture; Comvita Food (China) Ltd and Comvita China Limited (referred to as 'the JV' collectively) (1).

Comvita will acquire the JV through the issue of 4.05m new Comvita ordinary shares and an additional cash payment of \$3.19m (2). The acquisition will be earnings accretive immediately on a per share basis.

Comvita CEO Scott Coulter said, "This completes the 'final piece of the jigsaw' with respect to our China Strategy, which we have been working on for a number of years.

"We have completed a carefully considered staged approach to move up the value chain and get closer to our customers in China, who remain our strongest consumer base. Our goal has been to gain full control of our brand across all key channels into China. This acquisition significantly strengthens our direct to China business, the key building block in our China strategic plan," Mr Coulter said.

"Comvita's success in China has been underpinned by a stepwise approach to 'getting closer to the customer', consolidating each step until we have felt comfortable with moving to the next stage of development. Comvita initially had a distribution relationship with our Chinese partners for 12 years, before moving to a 51/49 joint venture on 1 July 2017, and now full control through 100% ownership of the China business", said Mr Coulter.

Mr Coulter said, "China is moving more into a direct trade and a formalised cross border e-commerce model, to ensure both consumer protection and fairness in taxation between online and offline 'players' are in place. We also expect the more informal channels to become more challenging for traders to navigate over time. This acquisition will provide Comvita with much more flexibility to optimise sales and channel profitability in this fast evolving environment."

Comvita has had three key goals in China this year, underpinning our preparation for full ownership:

- Achieving price harmonisation between channels and markets
- Supplying key cross-border e-commerce platforms directly
- Building e-commerce and marketing capability across our China network.

Comvita Chair Neil Craig said, "Comvita acknowledges this recent period has been tough for shareholders. Executing the China strategy has impacted the Company's short-term earnings, however, excellent progress has been made against all of these goals, standing Comvita in good stead for enhancing long-term value creation for shareholders, via full control of our channels into China."

“The JV has revenues of c.\$55m pa, so it is a sizeable business from Comvita’s perspective, and it is profitable and growing,” said Mr Craig.

Full ownership will allow Comvita to consolidate revenue and profit into reported results. It will also provide analysts and shareholders a much clearer appreciation of the underlying performance of Comvita’s business inside China.

Comvita’s consolidated business including China is now expected to be greater than \$200m of sales on an annual basis. The gross profit margin for Comvita will increase as a result of the purchase. We will provide a more detailed view of the consolidated business when we next update the market on the 2018-2019 honey harvest at the end of April (3).

The Comvita Board conducted a thorough process as to the appropriate method of funding this purchase. Considerations included raising capital from existing shareholders and paying for the acquisition with cash. Our Joint Venture partners were strongly of the view that Comvita equity was a requirement of the transaction and it would not have been able to be executed now without the exchange of equity in the China JV for equity in Comvita. This is a demonstration of Zhu Guangping and Li Wang’s continued long term commitment to Comvita. Furthermore, our 14 year relationship has been characterised by a high level of trust and commitment on both sides and we believe that this will endure. Indeed, Zhu Guangping and Li Wang’s willingness to continue to sit on the JV Board is testament to such commitment.

- (1) The transaction is conditional until 30 April 2019 (with provision to extend this date by agreement) upon the following material conditions:
 - Confirmatory due diligence to be completed to Comvita’s satisfaction;
 - Compliance with all legal requirements;
 - Issuance of an updated Business Licence for the JV;
 - Confirmation of the continuation of all material contracts of the JV.

Completion will occur three Business Days after satisfaction of all transaction conditions.

- (2) The Shares are to be issued into escrow on 10 April 2019 to be held by Custodial Services Limited pending satisfaction of all transaction conditions. Once all conditions are satisfied, upon completion the Comvita Shares shall be released from escrow and transferred to Li Wang. The cash portion shall be paid upon completion.

Li Wang, a New Zealand citizen, is a long-standing shareholder of Comvita and Comvita’s largest shareholder with a current shareholding representing 11.18% of total Comvita shares on issue. Post completion of this transaction, Li Wang will hold 18.41% of Comvita’s total shares on issue. Li Wang and Guangping Zhu, our JV partners, will also remain on the China Board along with current directors Mark Sadd and Scott Coulter, our CEO. Li Wang will be invited to stand for election to the Board of Comvita at Comvita’s Annual Shareholder Meeting in October 2019, with the support of the Board.

(3) From a technical accounting perspective, this transaction is accounted for as a business combination achieved in stages. This means, as well as the expected contribution to Comvita's operating profit, there is also likely to be a significant positive one-off impact on Comvita's FY19 non-operating profit. The accounting for this transaction is still being reviewed by our external advisors. We will provide further clarity to the market in our full year financial statements for the year ended 30 June 2019.

Ends

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Background information:

About Comvita (www.comvita.co.nz)

Comvita (NZX:CVT) is a global natural health company committed to the development of innovative products, backed by ongoing investment in scientific research.