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Comvita to form distribution Joint Venture in China

Global natural health products company Comvita (NZX:CVT) and Shenzhen Comvita Natural Food Co Limited (SCNF), Comvita's long term distribution partner in China, today announced the signing of a Heads of Agreement to form a 51:49 joint venture (JV) in China.

SCNF has an extensive sales and distribution network in China including over 400 Comvita branded department store kiosks, as well as 35 branded Comvita stores in tier one cities in China. SCNF has product registration expertise, strong relationships with regulatory authorities and has built an excellent brand position for Comvita. Approximately one-third of SCNF sales are through e-commerce platforms including successful positions with Tmall and JD.com, and they also sell through a number of duty free stores at key border locations.

Under the Heads of Agreement, Comvita would acquire the 51% shareholding by issuing 2.830m shares in Comvita at \$10.60 per share, which currently values 51% of the business at \$30m. The acquisition is expected to be earnings accretive in its first full year of trading, disregarding any one off start-up costs. The joint venture arrangements and issue of Comvita shares are subject to full legal documentation and all legal and regulatory approvals, together with the respective Board sign offs which must be completed by 1 March 2017 with an anticipated commencement of operations on 1 April 2017.

Comvita CEO Scott Coulter says, "SCNF has worked with Comvita for more than 12 years and the relationship is very strong, beginning with just two staff and now employing more than 200 staff throughout China. The SCNF-Comvita business has experienced a compound annual growth rate (CAGR) of 30% since 2004."

"We estimate that Chinese customers ultimately consume approximately 60% of our total sales, whether sold in Mainland China, or via tourists in Australasia, Hong Kong or other parts of the world. We believe we need to be as close as possible to these customers so we can provide an increasing range of innovative products to meet their health needs. This JV will allow Comvita to capture an increased margin on sales into China as well as allowing us to build a pipeline of new Comvita branded products in the future. Being on the ground inside China is a key building block to our future growth strategy."

"We have established a track record of building up exclusive distribution positions globally and then acquiring them back at the right time", says Coulter. This distribution JV will follow our successful purchase of our distributor in the UK in 2005 and Hong Kong in 2007. China however, is a much bigger and more extensive proposition and we chose to adopt a JV business model with our Chinese partner who has a proven track record of achieving results on the ground. Together, we will leverage our complementary expertise to maximise marketing, sales and distribution synergies."

Comvita supplies all of the major e-commerce platforms in China. In Taobao, the Chinese Consumer to Consumer site, the Comvita brand is now the number one honey brand in China, data which also includes local brands. In Tmall, which is the business to consumer site, Comvita is now the number two brand. China is the largest honey producer and consumer of honey in the world so this is an excellent position for our brand and a very strong platform to grow from. Comvita sales have grown 33% overall across the entire Chinese e-commerce market to the end June 2016, a very pleasing result.

"The Chinese market is moving more and more into a direct trade model and we expect the grey channels used by a number of importing companies will become increasingly difficult to navigate for many product lines over time as China demands compliance with its 'Blue Hat' Health Food legislation. Our JV will provide Comvita with much more flexibility over time to optimise sales and channel profitability through direct importation into China."

COMVITA LIMITED

Mr Coulter says, “We welcome the continued evolution of our partnership with SCNF and their owner, Mr Zhu Guangping. Under the Heads of Agreement, we are retaining Mr Zhu’s considerable business skills and he will continue to be on the board of the newly formed JV business.

As well as being an 80% shareholder in SCNF, Mr Zhu is a franchise owner in China Duty Free Group, with premium locations of Zhuhai (Macau-China border) and Shenzhen (Hong Kong-China border). He was the chairman of a publicly listed company in Hong Kong for two years and has an EMBA in addition to over 20 years of experience in corporate management.

Mr Zhu says, “We have worked together with Comvita for over a decade and have built a very strong brand position in the Chinese market. Originally I was attracted to Comvita as a number of my friends recommended their products to me, and after using them for some time I came to totally trust the brand, the company and the Comvita team. I believe that Comvita can build on its premium position in China and continue its progress in being one of the leading foreign brands in the natural health food market. I am also a believer in Comvita’s global business opportunities.”

Mr Zhu’s wife Li Wang, who is a New Zealand citizen, currently owns 5.12% of Comvita, and upon completion of the JV, Mr Zhu’s family would own 10.07% of Comvita. The remaining 566,000 shares to complete settlement would be issued to Ms Lily Sun, the current General Manager and 20% owner of SCNF. Lily Sun is a Chinese citizen.

Coulter added “We have been working for several months with our Chinese partner on this transaction and the JV will fulfil a significant step in sustaining Comvita’s growth strategy.”

Ends.

For further information:

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Background information

About Comvita (www.comvita.com)

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