



CEO LETTER TO SHAREHOLDERS

Since starting my role six weeks ago, I have spent a lot of my time meeting with our employees in Australia and across Asia, as well as key customers and suppliers. This time spent listening and learning has enabled me to gain both an in-depth understanding of the business as well as areas where we are doing well and where we can do much better.

The first thing that I will say is that we have incredible brands, talented and passionate employees, all built on a very impressive legacy of leading in natural health and wellness.

Our superior products, strong naturopathic heritage and award-winning education and innovation are the reason Blackmores has been the industry leader for 87 years.

However, despite Blackmores' significant growth in recent years, the reality is that we are experiencing unprecedented levels of competition and retailer demands. We operate in a dynamic industry where consumer expectations and competitive forces are constantly evolving.

The Australian VDS market has been flat for the past five years, the China regulatory environment continues to evolve, and we have been struggling to balance investment priorities across our portfolio of brands.

We have positive areas of growth across most of Asia, BioCeuticals and PAW but overall the quality of our earnings and ability to generate consistently high margins is not yet equal to the best-in-class in our industry.

In order to lift our growth ceiling, while creating enough value to invest in our brands, innovation and core capabilities, we have embarked on a business transformation program. There are five areas of focus:

1. **Lead with Purpose**

A strong sense of purpose builds confidence, aligns employees with management's strategy, creates loyal customers and informs our stakeholders. It is my job to ensure that we do a better job of aligning *Our Purpose* with *Our Strategy* and it continues to be a powerful force that strengthens the company's culture and our performance.

2. **Rejuvenate Australia**

Lifting the performance of our Australian business is critical to creating a strong foundation for international growth. Consumers in China and other parts of Asia aspire to buy leading Australian brands and products with the highest quality standards.

As the market leader in Australia, it is our responsibility to continue to find ways to drive category growth. We will do this by best understanding consumer and practitioner needs, developing a well-defined brand and customer value proposition and executing with excellence by best leveraging our assets.

At the same time, we must respond to pricing pressures and the changing retail environment by reducing costs and improving our revenue management practices.

3. Deliver a Sustainable Growth Model – Asia Markets

The opportunity in China is clear. We need to expand our in-country reach, building our business around a multi-channel consumer-based offering for mainland China. Whether shoppers buy from cross border e-commerce, domestic e-retailers or in the traditional trade, we must be in-tune with the consumer journey. Our ability to do all of this while driving down consumer cost-per-acquisition will be key.

China has a unique digital ecosystem, strong consumer protection laws and a complex regulatory environment. Because of this situation, the need to have a set of strategic partnerships in this type of environment is very common. These partnerships could be with e-retailers, digital agencies, distributors or local/international companies, who we believe will complement us.

It is my intention to continue to find the best opportunities for Blackmores to strengthen partnerships in all our top markets in Asia – China, Indonesia, Malaysia and Thailand, as well as back at home in Australia. The same is true for new market entry. How we continue to build this great company will be unique and carefully mapped to the local market situation.

4. Product + Services powered by Education

Our business was built on our ability to connect practitioners and consumers to the healing power of nature through innovative products and solutions, way ahead of their time.

Our product offering will be more consumer-based while at the same time more channel focused. One example is our label and packaging refresh which we are rolling out for Blackmores. It will deliver a more shopper friendly, sustainable and intuitive range of vitamins and dietary supplements.

As we map our brands to consumer and channel needs, our key point of difference will continue to be the quality and reach of our education and content. This will set us apart from our competitors.

We will continue to provide pharmacists and practitioners, across our market, with world-class education and training programmes with training on vitamins, minerals and nutrition. Going forward, superior content will not only build brand equity but also strengthen our credibility as the industry leader.

5. Drive Operational Excellence

Today, we have a heavy workload of too many low-value projects. The transformation of our company requires us to unlock organisational capacity, identify breakthrough capabilities and invest to grow. All this requires us to reorientate the culture, back towards one that is grounded with a Founders Mentality – customer obsessed with a higher drive for insurgency and owner's mindset.

Outlook

We have a clear plan to grow the business. However, some challenges in the short term remain. As previously advised in August 2019, the first-half performance is not expected to be ahead of prior year due to disruptions caused by channel shift and China regulatory changes that took effect from January 2019.

Increased ingredient and raw material costs, along with short-term phasing of transition costs associated with the Catalent transaction, will impact gross margins for the first-half of FY20. Profit for the first-half is expected to be at similar levels to the second-half of F19.

We will continue to build upon the initiatives that have been underway with our business improvement program, as well as banking the full realisation of our October price increases in the second-half. All this will lead to a significant performance improvement as the year progresses and we are confident to deliver our full year profit.

Management changes

The key to successfully deliver on our transformation program is linking the right structure and people to our strategy. I am therefore pleased to announce three key appointments to the Blackmores Executive Team.

I am confident that by having our three regions reporting into the CEO, it will allow us to drive a stronger connection to Asia, while increasing focus and the pace of change through faster decision making.

Kitty Liu has been appointed Managing Director for China, effective 1 December. Kitty brings 25 years' experience with blue chip multinational organisations including most recently General Mills, Reckitt Benckiser, Yum! and Unilever across diverse markets like China and Japan, with a span of Nutrition, Food, Home and Personal Care, and Beauty categories.

Ayumi Uyeda has been appointed Managing Director for Australia and New Zealand. Ayumi will join us early 2020 from Bayer in Greater New York, where she is currently the Global Head and Vice President of Aspirin and Aleve in the Pain & Cardio categories – Bayer's most critical and valuable category.

I'm delighted to announce that Dean Garvey will be promoted to Managing Director for Blackmores International. Dean joined Blackmores in 2014 and is currently Deputy Managing Director of Asia. In this role he's led Blackmores' entry into numerous markets, including Indonesia.

As a result of the change to the Asia management structure and in-line with his personal ambition to focus more of his time on his charitable work in Bhutan and other interests, Peter will leave Blackmores at the end of December. Peter has been the architect, champion and deeply passionate leader of Blackmores growth in Asia over the past decade.

I would personally like to thank Peter for his enormous contribution to Blackmores over more than a decade.

With my Executive Team, we will drive the necessary change to grow, diversify and expand across regions and across product offerings.

In the backdrop of a fast-paced health and wellness environment, driven by changing consumer demand, it will be more important than ever to provide a more personalised consumer experience.

This will be at the heart of our plans going forward as we *Lead with Purpose* to create a world where people and nature thrive together, for the health and wellness of all.



Alastair Symington

31 October 2019