

BLACKMORES GROUP

CEO LETTER TO SHAREHOLDERS

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27 October 2020

Dear Shareholders,

The year 2020 will certainly go down as one where the world has faced unprecedented change. For us all here at the Blackmores Group the volatility and uncertainty brought about by the global pandemic was the backdrop for changes that we already knew our company needed to face into.

Last year was my first AGM serving as your new CEO. I was six weeks in the job, and we had just taken control of our Braeside manufacturing facility. Since then we have successfully integrated Braeside and made the transition to delivering complementary medicine end to end for the first time in our history. A bold decision that fundamentally altered our earnings model, positioning us as an Australian manufacturer in control of our own destiny.

A WORLD CLASS TEAM

We have a newly formed Executive Team. One that I believe is world class, each team member picked on their proven ability to lead large scale and complex transformations. A highly diverse team in terms of background, gender, and commercial experience but a team bound by a common Purpose, which is to provide the world with a choice to make living well a natural way of life.

This is a team that will not only lead the transformation of our brands and our people so that we can deliver sustainable, profitable growth but will do so in a way that better serves consumers, customers and the communities in a uniquely Blackmores way.

While we will be dealing with the tragedy of COVID-19 for some time to come, what this Black Swan event has reinforced is how important health is to each and every one of us, and what an important role Blackmores needs to continue to play in delivering on its promise to connect every person on earth to the healing power of nature.

WE HAVE STABILISED THE BUSINESS

The team has done a wonderful job of integrating our Braeside manufacturing facility both in terms of planning, operations and people.

We have finalised our product label artwork changes across all 14 markets, which was necessary to comply with changes required by our regulator.

Kitty Liu joined us in December 2019 and has set about building stronger leadership in China, improving retail fundamentals and championing the launch of our first ever “Made for China” innovation in September. All combined these initiatives are translating into much improved in-market results for our China business unit and sets us on the path for future growth.

We were also able to implement most of our organisation redesign by the beginning of October, which will deliver $15m in gross annualised operating expense savings, half of which will be allocated to resources in our Asia growth markets.

FOCUSED ON PROFITABLE GROWTH

During our February Half Year Earnings release we shared our 3-year Strategic Growth Plan, one that will return Blackmores to Sustainable, Profitable Growth.

Despite the COVID-19 crisis affecting all our markets, we have pushed through and initiated the necessary changes required to support the implementation of our strategies.

Our strategy is underpinned by Global Consumer and Health Trends. One that is highly relevant in a post COVID world.

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I would like to give you a sense for a couple of the big opportunities that we see for all our markets.

The first is **Pet Health**: a fast-growing category in Australia with supplements projected to grow to by 9% CAGR over the next four years to almost $100m[1].

The pet supplement markets in China is anticipated to double to over AUD$350m over the next four years.

Blackmores' focus is on continuing to build our Nutraceuticals and Dermatology ranges across both consumer and practitioner only clinic ranges.

Key focus areas for Pet Health in FY21 are:

1. Acceleration of Australia through;
    (i) Practitioner referrals
    (ii) Innovation delivery and pipeline development
    (iii) Communication and channel expansion to include ecommerce
2. Market expansion into Asia (provided we are not hampered by COVID-19)

The second is **Mental Wellbeing**. This is an area which we believe Blackmores has the potential to lead the category in both education and innovation.

Key focus areas for Mental Wellbeing in FY21 are:

1. Portfolio rollout across the region of existing products to address under-served consumers
2. Leverage our Blackmores Institute via partnerships with universities and key opinion leaders

In **China**, the recent launch of our new Blackmores premium line is an example of where we can deliver the right combination of products, education and strong sales and marketing fundamentals we can establish ourselves by supporting women with natural health solutions across their pregnancy and parenting journey.

We are confident that if we can execute our plans to deliver China designed innovation for Cross Boarder Ecommerce (CBEC) customers we will double the business in China by 2023. Concurrently we will progress our strategy to have dedicated orange and blue cap registered product lines available for sale in retail stores and ecommerce channels in mainland China.

There is a great opportunity for a trusted Australian brand to provide natural health solutions for consumer groups who have been underserved. We call this **cultural customisation**. By customising our offer where needed, whether it be lifestyle (like vegan and vegetarianism) or being more in tune to religious customs we will open access to our products for some of the fastest growing consumer groups in the world.

One example is providing halal assurance for Muslim consumers. Our early research showed that over 97% of Muslim consumers look for halal accreditation when they purchase supplements and the most preferred accreditation is to the see the logo on the product itself.

Indonesia has the largest population of Muslims in the world totalling 229 million. The second and third largest nations are Pakistan and India. Therefore, Blackmores will be serving the three largest Islamic markets once we enter India.

OFF TO A PROMISING START TO THE YEAR

We are encouraged by a solid start to FY21 with Group Net Sales in the low double digits driven by strong pre-Double 11 sales in China and continued good growth in International markets. There have been strong sales to key customers in many markets ahead of our October 1st price increase.

We are currently projecting first half FY21 Net Sales growth in the mid-single digits range compared to prior year. Both of our Asian regions will be the primary drivers of this growth.

As we have highlighted before, year on year cost variances linked to the October 2019 acquisition of Braeside will negatively impact gross margin in the first half of FY21. Our major cost savings project "Leading Value Position" is well underway, with $10m of COGS savings to be delivered in the current fiscal year.

1 Source: Euromonitor

With clear focus on our priorities and a step change in execution with our customers we can return Blackmores to short-medium term growth of mid-single digit growth and great improvements in our earnings profile.

HEALTHY PEOPLE, HEALTHY PLANET

When we met at the AGM last year, we had just committed to transitioning to renewable sources of energy. This has delivered both a reduction in emissions and the cost benefits linked to being responsible.

In May we announced our Zero Carbon 2030 target, an important and aggressive goal.

This commitment is more important than ever before as we have moved into manufacturing and extended our supply chain which doubles our emissions footprint – so our impact is bigger but so is our capacity to influence.

Some of the significant progress we've made during the year includes:

- Aligning executive incentives to our key sustainability goals and integrating these into our Group policies, processes and frameworks.
- Developing a roadmap to underpin our commitment to Net Zero Carbon Emissions by 2030.
- Progressing our *Partnering for People* program to assess and address the risk of exploitation in our supply chain. This will position us well to meet the upcoming reporting requirements of the new Commonwealth Modern Slavery Act and I'd like to take this opportunity to thank our suppliers for supporting us in this important program.
- Affirming our commitment to more sustainable packaging solutions with better communication on many of our packs and continuing to eliminate problematic and single-use plastics.
- Our Braeside team developing and implementing a new tablet transfer process which will save 20 tonnes of carbon emissions and eliminate 20 tonnes of cardboard and 52,000 single-use plastic bags annually.

MARCUS BLACKMORE

I would like to respectfully thank Marcus for the major contribution he has made over the last 57 years establishing Blackmores as Australia's leading Health and Wellness company and most trusted brand in our industry. As the world struggles with solutions to a global pandemic it is now more important than ever that all of us here at Blackmores build upon the wonderful legacy that Marcus created, one started through a vision created by his father Maurice – to ensure that everyone has a choice to make living well a natural way of life.

Marcus has given so many years to this company. I am glad to see him continue to pursue his philanthropic interests and passion of sailing and spending time with his family. He remains our single largest shareholder and I am confident he will continue to support the Board and Management team as Blackmores Group enters a new era and we drive his vision forward as a global leader in complementary medicines.

Thank you to our shareholders for your continued trust and loyalty. One thing that will never change at the Blackmores Group is that our success is intrinsically linked to our vision of connecting people to the healing power of nature. In our world today, this is now more important than ever.

Please continue to be safe

Yours in good health,



Alastair Symington
CEO

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