



**ASX RELEASE**  
**24 October 2018**

**2018 Annual General Meeting**  
**Chair, Deputy Chair & CEO addresses**

**Chair's address delivered by John Ho**

On behalf of the Board, I welcome you to the 2018 Annual General Meeting for Bellamy's Organic.

As an Australian, I played Peter Sculthorpe's music as a child. Peter is, of course, a famous Tasmanian from Launceston. I have also visited Tasmania many times in my career. These trips always bring happy memories and smile to my face, thanks to Tassie's friendly people and natural beauty especially here in Launceston. Tasmania is also the place of your company's birth in 2004 and is a dear place for Bellamy's.

As a father of three young children, I desire to give children the best we can, especially wholesome, nutritious and quality food. This is the core tenet of Bellamy's organic – to provide a pure start to life, and an organic, nutritious and convenient option for babies and young children.

Fellow shareholders, your Company has made substantial progress in FY18. We have achieved strong sales growth and profit increase. Bellamy's is now in its strongest financial position ever, with \$88mm in net cash in FY18 giving us flexibility to invest for the long-term.

Since I joined the Board in April 2017, my fellow Board members and I have put utmost focus on building a sustainable and long-term business model for Bellamy's. In this day and age, when so much attention is focused on the short-term, on daily stock price moves, on monthly management reports and on semi-annual result announcements, it can be easy to concentrate focus on the short term without being thoughtful on the long-term. This is especially so as the tenure of Boards and corporate executives has become increasingly brief.

However, it would be a mistake to focus only on the short-term achievements. In addition to serving on your Board, I have had the privilege to research and invest in hundreds of companies in the past 20 years as a long-term Industrialist Investor. One lesson I have learned over and over is that sustainable business success is not about short-term financial numbers. Rather, it is the many actions and decisions the business takes over many years. I have learned that the best value creators are those that make consistent, long-term and aligning decisions anchored to a clear mission and enabled by an effective culture.

So, what are some the long-term value-enabling actions Bellamy's has undertaken in FY18?

First, we have focused on recruiting and retaining a strong executive team and Board. Finding and motivating the best people is the single most important investment we can make. We will continue to search for people with superior values and ethical standards to augment your management team and Board.

Second, your Board has worked closely with the executive team to define in detail the company's strategic direction and execution plan. Details will be shared in the upcoming investor day.

Third, the management team has focused on building foundational capabilities – which are enabled by working in an agile and disciplined way. Specifically, the team has enhanced revenue management and tracking discipline, reduced key component costs, increased brand building and marketing strength and deepened the use of e-commerce and digital platforms in China.

While these efforts are well under way, we are still in the early innings of fulfilling Bellamy's potential. In addition to our leading position in Australia, China is an enormous and complex infant nutrition market and our top priority for the future. Increasingly affluent and aware Chinese mothers and fathers are searching within and outside of China for the best for their babies. Bellamy's mission to provide "A

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pure start to life”, our organic and down-to-earth infant formula and food products, as well as our established and trusted Tasmanian origin, make Bellamy's a fantastic choice for parents who want to provide their babies the best start in life. By delivering on this potential, we can fulfil our mission and create substantial value in the process.

There remains much work to be done and challenges to navigate. Your Board and management team are fully committed to Bellamy's mission, and remain focused on maintaining a culture of transparent communication, thoughtful strategic decision-making and balanced risk-taking. These will contribute to building a great business and delivering long-term and sustainable success for all stakeholders.

On behalf of your Board and the team of Bellamy's, thank you for your ongoing support.

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### **Deputy Chair's address delivered by John Murphy**

Good morning everyone and welcome. During FY18, the Company made significant changes to its key management personnel and Board composition in order to execute its turnaround and growth strategy.

As noted by John, the first year of the turnaround strategy has seen strong early results, with a year-on-year increase of 65% on normalised EBITDA, a step change investment in building the Bellamy's brand, a very much improved balance sheet and cash position and the establishment of key strategic supply chain relationships.

As a key part of driving performance linked to the achievement of the turnaround strategy, the Board has ensured that the non-financial performance metrics for executives are also focused on underpinning the strength of the Company's business. Non-financial performance remains a key element to the delivery of remuneration incentives, including the setting of key performance indicators for the short-term incentive program and the discretions available to the Board to claw back awards.

Throughout FY18, Bellamy's has continued to refine its way of working. The Board has appointed a new Director, Shirley Liew which has further enhanced the Board's skillset in areas including governance, financial and operating control frameworks, food safety and quality control. I note that you will be voting on Shirley's election later in the formal part of the meeting. I encourage you to do so.

Shirley is an excellent addition to our Board and has taken on the important role of Chair of the Audit & Risk Committee. Shirley has over 25 years' experience in international, listed and world class organisations in Australia as well as the UK and Asia. She has held senior commercial finance roles and lead advisory/audit partner roles in top-tier Chartered Accounting firms, including Grant Thornton and Ernst & Young.

In addition, significant progress has been made on the development of a comprehensive 2021 strategic roadmap for the business and cascading this through the organisation, underpinned by the CEO implementing an enhanced leadership team structure and setting the business to a way of working that is more agile, dynamic and accountable. Supporting this, was the implementation of a new culture platform aimed at driving high performance.

The Board is focused on continued transparent communication to you our shareholders and stakeholders.

On behalf of the Board and management team of Bellamy's, thank you for your ongoing support. Last but not least, I want to add an extra word of thanks to our staff and employees, who has worked tirelessly to help deliver the potential of Bellamy's. Thank you.

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## CEO address delivered by Andrew Cohen

Thank-you John and John and good morning everyone. On behalf of the management team, I would like to welcome you to our annual general meeting.

The FY18 turnaround year was a transformative year for Bellamy's delivering tangible results in terms of revenue growth, profitability and the balance-sheet. Sales increased 37% to \$329m and EBITDA increased 65% to \$71m on a normalised basis and, in parallel, our balance sheet strengthened, including \$88m in cash and no debt.

However, perhaps more important were the changes made to the underlying business model, and a stronger focus on driving productivity and reinvesting gains in the brand, organisational capability and supply-chain.

- This included stronger channel and revenue management disciplines, procurement and cost of goods disciplines, logistics optimisation and overhead control. In total, unit gross margins increased +30% and unit direct costs improved 25% in 2H18 versus 2H17.
- Gains were reinvested in the brand, both in terms of marketing spend (which doubled as a percentage of revenue) and product development to be launched this financial year.
- We also invested strategically in our supply-chain, including \$39m in FY18 investments in the Camperdown CNCA licensed facility and the establishment of a Tasmanian Organic milk pool with Fonterra.

Beyond the numbers, the business transformed in terms of culture and capability. Today, Bellamy's stands a highly agile, passionate and commercial culture, underpinned by significantly stronger talent and capability. This is true at all levels, including board, management, in Australia, and in particular for China.

As flagged in August, we do see a more challenging FY19 trading environment, and have observed slower China cross-border growth across the category, as well as increased competition in terms of both availability and trade pricing for both local and global competitors. We view these changes as short-term challenges that need to be cycled in FY19 and are likely tied to lower Tier 1 and 2 birth rates in CY18. We believe this can be overcome, with greater Tier 3 and 4 ecommerce penetration, and continued investment in our brand and product portfolio.

The underlying segment potential remains significant and the macro-trends for both organic formula and food, and the cross-border ecommerce channel remain relevant, especially in China.

Bellamy's is a leading pioneer in the category, famous for its authentic belief in organic practices and "*a pure start to life*". We believe this brand authenticity will continue to play out as the organic category grows, as it clearly has over the past 5 years. We further believe that investment from others that establish organic at the very top of the premium pyramid in China will only further cement the niche and our brand and our next frontier of growth.

Our team is now focussed on a detailed 3-year growth strategy that recognises the significant opportunity for organic infant nutrition in China and Asia more broadly and is targeting +\$500m in revenue by 2021. On 29 November we will outline this growth agenda and the building blocks for this ambition in more detail at our Investor Strategy day, anchored in the 12 key strategic investment themes already presented to the market.

The brand and product upgrade is the single most important of these initiatives in FY19. It aims to transform both our competitive position and addressable market, fortifying our already famous organic credentials with the best of science including functional ingredients DHA, ARA, and GOS prebiotic which are leading criteria for purchase consideration. To give you a sense of how this impacts our addressable market, research shows that 74% of Chinese mothers aged 25-35 years old consider DHA a 'must have' for infant formula. This change allows us to finally compete head-to-head with both

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scientific brands and other leading organic brands on a like-for-like basis and begin to penetrate the critical Tiger mum segment.

It is such an important initiative that it is imperative we set the right conditions for success. This includes the need to run-down distributor trade inventory prior to launch in 2H19 which will impact 1H19 sales by \$10-15m, as well as a continued review of the \$6m write-off provision set aside in FY18 for the launch to accelerate transition and ensure a clean changeover.

In addition to these functional upgrades, we will now be including fresh local Australian milk, and extending the formula range to include Step 4 and Pregnancy formulations.

We have also already launched the new premium branding for Food, expanded food ranging to include Woolworths, and launched an enhanced cereal range fortified with GOS prebiotic, a sugar-free custards range and a new exotic fruit pouch range aligned to Chinese preferences.

The launch is supported by a step-change in marketing – including proven ambassadors, a research-backed organic education campaign and greater emphasis on our provenance story.

An early highlight of this campaign is the “1% rare, 100% pure” headline that talks to the preciousness and premium nature of organic milk which represents just 1% of farmland globally. This message is already strongly resonating with Chinese consumers.

As outlined in August, our SAMR registration for Chinese-label product was submitted in December and is in progress. We remain confident in our technical application but do not yet have transparency of timing for approval. We continue to plan for successful registration and are building out a detailed China offline strategy in parallel for speedy and successful execution on approval.

Our guidance range is unchanged, but in the context of recent category performance we anticipate full year Australian label revenue growth at the low end of the stated 0-10% range. We note that 1H19 sales are likely to be 10-15% below 1H18 due primarily to an expected \$10-15M run-down of trade inventory prior to rollout of the brand upgrade. Stronger performance is expected in 2H19 as we return to normal trading and implement key revenue initiatives including the brand upgrade launch.

The team remains highly conscious of the continued risks and challenges that face our business, but equally excited by the opportunity for shareholders and we retain confidence in our medium and long-term growth outlook.

On behalf of the management team, I thank you for your ongoing support and look forward to outlining our 3-year agenda in more detail at the 29 November Investor Strategy day. Thank you.

**- ENDS -**

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