

Q2 FY23 Quarterly Activities Report and Appendix 4C

31 January 2023

BWV Limited (ASX:BWV) (**BWV** or **Company**) provides its Q2 FY23 business activity report and Appendix 4C.

Commentary on Q2 FY23 Group Financials

Sales revenue for Q2 FY23 was \$38.1m, which was significantly below internal targets. Revenues were adversely impacted by several factors, which included the following:

- a more disciplined approach to the review of our revenue recognition procedures has resulted in the early identification of circa \$4.1m of revenues that were invoiced in December 2022, but which were recorded in January 2023;
- ongoing cash constraints have significantly challenged our ability maintain inventory levels at optimum levels, which has resulted in out-of-stock issues in several lines affecting sales in our Asia Pacific and Digital business units (Nourished Life and Flora & Fauna); and
- this has also affected our promotional activity, which in turn has also adversely affected sales revenues.

The cash constraints are anticipated to be addressed as we finalise our refinancing initiative, during Q3 FY23. The Board anticipate sales to improve in Q3 and Q4 as a result.

Revised Guidance

The Board has today approved the release of the following trading update.

1. Sales revenues for FY23 are revised down from a previous range of \$205m to \$230m to \$170m to \$190m.
2. Earnings before interest, tax, depreciation and amortisation (EBITDA) revised down from a previous range of \$25m to \$30m to \$10m to \$15m excluding significant one off items. For the full details of this trading update, please refer to the trading update released on 31 January 2023.

Net operating cashflows in Q2 were negative \$9.152m which is an improvement \$12.72m against the previous quarter.

Operating cashflows were lower because of trading losses, and significant payments for capital equipment and trade suppliers whilst cash receipts were lower than anticipated due to the lower sales results.

Payments to related parties in Q2 included \$174,815 being payments under the Loan Facility Agreement between BWV Brands Pty Ltd and Purely Byron Pty Ltd in which it holds a ~48% stake and payment of fees to non-executive directors of \$105,545.93.

Business Review

Australia/International

Our Australia/International business unit performance has been adversely impacted by:

- out of stock issues referred to above;
- reduced promotional activity to conserve cash and to manage out of stock levels; and
- past investment-buy decisions resulting in elevated inventory levels within several key channels, which in turn has resulted in significant sales reductions.

Based on current scan out data, the Board anticipates elevated inventory levels to reduce to target levels by Q3 FY23 with invoicing to increase significantly in Q4 FY23. Out-of-stock issues and re-establishment of promotional activity are likely to improve in a similar timeframe once the debt restructure has been finalised.

Americas' business unit

The Americas' business sales performance is below targeted performance levels. Cash constraints have delayed the launch of several new products. We have also delayed the rollout of new merchandising units to several of the customers that carry our lines, and in addition marketing spend that was earmarked to support growth has also been delayed.

China Registration

On 6 January 2023, BWXL obtained registration approval from the People's Republic of China (**China**) National Medical Products Administration (**NMPA**) for twelve Sukin-branded skincare products. By holding this NMPA certification, BWXL is able to sell these twelve Sukin-branded skincare products through wholesale and retail channels in China rather than relying on cross-border e-commerce channels. This process removes the requirement for potential animal testing in China and we are one of the first companies globally to achieve this registration approval.

BWXL is now preparing these products for export to China and it is anticipated that sales of these twelve Sukin branded skincare products in China will commence in FY24. We anticipate this initiative will contribute over \$15m in revenue per annum by FY26.

Update on Divestments

On 7 December 2022, BWXL divested its shares in PS Health Pty Ltd, trading as Goodness Me ending BWXL's investment in that business.

On 22 December 2022, BWXL divested the assets of the USPA business to Anagenics Limited (ASX:AN1). The purchaser acquired all raw materials, components and finished goods, which has further simplified BWXL's operations. The purchaser will pay a royalty to BWXL during FY24 and FY25 provided that certain revenue hurdles are met.

BWXL is in negotiations with interested parties to divest its remaining interests in the Nourished Venture portfolio during H2 FY23.

Cost Out and Restructure

The group had earmarked over \$10m of annualised cost out initiatives as part of its ongoing efficiency program. BWX is on track to deliver on its cost out and restructure program, with the full benefits to be realised during H2 FY23.

-ENDS-

Authorised for release by the Board Directors of BWX Limited

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About BWX

BWX's purpose is creating Natural beauty and wellness for the world as a vertically integrated developer, manufacturer, distributor, and marketer of branded products in the Natural subcategory of the broader beauty and personal care market. The Group owns, manufactures, and distributes products predominantly under the Sukin, Andalou Naturals, and Mineral Fusion brands. BWX also sells a wide range of wellness products (own-brand, private-label and third-party) across multiple categories via the Flora & Fauna and Nourished Life e-commerce sites. Effective 30 September 2021, BWX acquired a majority stake in Go-To Skincare, an Australian skin care provider selling a range of simple, trusted and effective products for the masstige segment of the broader skin care category.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

BWX Limited

ABN

13 163 488 631

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	51,912	94,706
1.2 Payments for		
(a) research and development	(414)	(881)
(b) product manufacturing and operating costs	(33,034)	(68,089)
(c) advertising and marketing	(8,259)	(19,519)
(d) leased assets	(1,728)	(3,114)
(e) staff costs	(10,061)	(20,251)
(f) administration and corporate costs	(3,254)	(7,741)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1,413)	(2,410)
1.6 Income taxes paid	(2,901)	(3,726)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	1	1
1.9 Net cash from / (used in) operating activities	(9,152)	(31,024)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(1,936)	(4,787)
(d) investments		
(e) intellectual property		
(f) other non-current assets	(71)	(71)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses	155	155
	(c) property, plant and equipment		
	(d) investments	266	266
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities	(175)	(774)
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(1,761)	(5,211)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	16,938
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(526)
3.5	Proceeds from borrowings	10,668	38,768
3.6	Repayment of borrowings		(23,146)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid	(1,004)	(1,004)
3.9	Other (provide details if material)	(62)	(190)
3.10	Net cash from / (used in) financing activities	9,602	30,839

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	15,983	19,736
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(9,152)	(31,024)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,761)	(5,211)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	9,602	30,839
4.5	Effect of movement in exchange rates on cash held	(274)	59
4.6	Cash and cash equivalents at end of period	14,398	14,398

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	15,072	17,703
5.2	Call deposits		
5.3	Bank overdrafts	(674)	(1,720)
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	14,398	15,983

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	
6.2	Aggregate amount of payments to related parties and their associates included in item 2	(774)
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000																																																								
7.1	Loan facilities																																																										
7.2	Credit standby arrangements																																																										
7.3	Other (please specify)																																																										
7.4	Total financing facilities																																																										
7.5	Unused financing facilities available at quarter end																																																										
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.																																																										
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Facility</th> <th>Lender</th> <th>Interest rate</th> <th>Maturity date</th> <th>Secured or unsecured</th> <th>Facility Limit</th> <th>Drawn</th> <th>Head Room</th> </tr> </thead> <tbody> <tr> <td>Facility A</td> <td>Commonwealth Bank</td> <td>7.73%</td> <td>1/07/2024</td> <td>Secured</td> <td>\$29,379,317</td> <td>\$29,379,317</td> <td>-</td> </tr> <tr> <td>Facility B</td> <td>Commonwealth Bank</td> <td>6.40%</td> <td>1/07/2024</td> <td>Secured</td> <td>\$18,570,398</td> <td>\$18,570,398</td> <td>-</td> </tr> <tr> <td>Facility C</td> <td>Commonwealth Bank</td> <td>5.50%</td> <td>28/2/2023</td> <td>Secured</td> <td>\$47,096,269</td> <td>\$46,709,877</td> <td>\$386,392</td> </tr> <tr> <td>Facility G</td> <td>Commonwealth Bank</td> <td>6.40%</td> <td>1/07/2024</td> <td>Secured</td> <td>\$10,500,000</td> <td>\$10,500,000</td> <td>-</td> </tr> <tr> <td>Facility H</td> <td>Commonwealth Bank</td> <td>6.40%</td> <td>28/2/2023</td> <td>Secured</td> <td>\$1,800,000</td> <td>\$161,984</td> <td>\$1,638,016</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Total</td> <td>\$107,345,984</td> <td>\$105,321,575</td> <td>\$2,024,409</td> </tr> </tbody> </table>			Facility	Lender	Interest rate	Maturity date	Secured or unsecured	Facility Limit	Drawn	Head Room	Facility A	Commonwealth Bank	7.73%	1/07/2024	Secured	\$29,379,317	\$29,379,317	-	Facility B	Commonwealth Bank	6.40%	1/07/2024	Secured	\$18,570,398	\$18,570,398	-	Facility C	Commonwealth Bank	5.50%	28/2/2023	Secured	\$47,096,269	\$46,709,877	\$386,392	Facility G	Commonwealth Bank	6.40%	1/07/2024	Secured	\$10,500,000	\$10,500,000	-	Facility H	Commonwealth Bank	6.40%	28/2/2023	Secured	\$1,800,000	\$161,984	\$1,638,016					Total	\$107,345,984	\$105,321,575	\$2,024,409
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8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(9,152)
8.2	Cash and cash equivalents at quarter end (item 4.6)	14,398
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	14,398
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1) <i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	(1.57)
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions: 8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not? <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> Answer: No, anticipate an improvement in operating cash flows, and we also anticipate the receipt of a tax refund of \$8.9m from the ATO. </div>	

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: The entity is in the process of securing a longer-term restructuring of its financing facilities to seek further funding in H2. Furthermore, a strategic review of all non-core assets is underway and we anticipate realising sales proceeds during H2.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes, the entity is anticipated to continue its operations on a going concern basis, subject to the successful completion of its initiatives in 8.6.2 above.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2023

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.