

Media Release – 2022 Interim Results
29 August 2022

H&H Group delivers first half business growth in 2022 Interim Results led by strong revenue across 3 product segments

- Group revenue grew 9.8% on a reported basis to RMB5,955.4 million in the first half of 2022
- Adjusted EBITDA declined 1.0% with a stable 17.7% adjusted EBITDA margin
- Adjusted net profit declined 26.9% due to higher finance costs from incremental debt stemming from the Group's Zesty Paws acquisition and net profit on a reported basis declined 5.2%
- The Group successfully drew down a 3-year term loan facility, refinancing all existing loan facilities to improve its capital structure and liquidity position
- Interim dividend payout ratio of 30% of adjusted net profit announced
- The Group stabilised its market position in the infant milk formula business with a 5.7% share, and achieved sales turnaround in probiotic supplements, in Baby Nutrition & Care (BNC), a segment which contributed the largest portion of the Group's total revenue at 53.4%
- Adult Nutrition & Care (ANC) delivered solid revenue growth of 14.9% on a like-for-like ("LFL") basis and Pet Nutrition & Care (PNC), bolstered by last year's acquisition of Zesty Paws, saw 35.4% growth on an LFL basis as both segments retain momentum in core major markets whilst expanding into new markets in Asia and the US
- Revenue from mainland China returned to a growth trend, achieving growth of 3.4% on an LFL basis and accounting for 73.8% of total Group revenue
- Revenue from Australia and New Zealand (ANZ) grew 24.0% year-on-year on an LFL basis, with robust revenue growth in all channels
- The Group made purposeful strides in its sustainability progress, including maintaining its MSCI ESG Research rating of 'A' whilst moving closer to achieving B-Corp certification

Global family nutrition and wellness provider, Health and Happiness (H&H) International Holdings Limited ("H&H Group" HKSE: 1112), has today announced its interim results for the six months ended 30 June 2022, delivering profitable growth for the first half of the year.

During the Interim Period, total Group revenue grew 9.8% year-on-year (YoY) on a reported basis to RMB5,955.4 million whilst net profit declined 5.2% on a reported basis to RMB475.1 million. The Group saw positive revenue growth across its two business segments – Adult Nutrition and Care ("ANC"), and Pet Nutrition and Care ("PNC") whilst seeing recovery in some parts of the Baby Nutrition and Care ("BNC") segment despite facing challenging conditions, including rising inflation, supply chain issues, and industrial challenges.

H&H Group's Chief Executive Officer and Executive Director, Laetitia Albertini, said the business was pleased to deliver positive results, fostered by a combination of brand strength and product innovation, along with proactive efforts to expand the Group's reach to new and existing markets.

"These interim results have placed the Group on a strong trajectory for the remainder of 2022.

Across our three business segments, we have built momentum that is paving the way to accelerated profitable growth despite encountering various challenges and impacts. This speaks volumes to the resiliency of H&H's brands, our product quality, and our consumer-led approach to innovation and marketing within our product portfolios," Mrs Albertini said.

The Group's BNC segment is recovering, reporting a 3.5% decline, as it continues to grapple with long-term structural challenges it is facing in mainland China, particularly in the infant milk formula (IMF) category. Whilst the IMF category saw a 3.1% decrease YoY, revenue from probiotic

supplements increased 6.4% to compensate. Despite the obstacles the industry is grappling with, at 53.4% the BNC segment is the Group's largest contributor to overall revenue.

"We cannot overlook the challenges our BNC segment is encountering in mainland China, from declining birth rates to increasing competition and rising inflation. These are industry-wide issues that we have navigated well through prioritising a channel expansion strategy, as well as branding initiatives and focused investment in consumer education. We have also continued to gain market share in the super premium cow milk IMF and goat milk IMF markets, both of which represent a major part of our IMF business. We have stayed at the forefront of this segment of our business, attentive to changing consumer needs whilst capitalising on new opportunities for growth," Mrs Albertini said.

The ANC business segment saw its revenue grow 14.9% on a YoY LFL basis to make up 34.4% of the Group's overall revenue in H1. The Group continued its ANC expansion in Asia – over the past few years it has entered several new markets, including Hong Kong SAR, Singapore, Malaysia, Thailand, Indonesia, and India, and, most recently, Vietnam. Swisse continues to strengthen its No. 1 position in the beauty supplement brand category in Singapore.

Meanwhile, the Group has seen major success and strong revenue growth in its PNC segment, which saw a 35.4% increase YoY on a LFL basis. Pet supplements and nutrition brands, Solid Gold and Zesty Paws, acquired by the Group in 2021, contributed 12.2% to the Group's overall revenue as they continued their online and offline expansions in both the US and mainland China markets. Zesty Paws maintained its leading position in both Amazon and Chewy platforms and has also entered Costco online stores in the US. Zesty Paws and Solid Gold are now present in more than 7,744 stores and 4,200 stores respectively across the country, including major chains, such as Walmart, Target, Petco, and PetSmart.

"Between our ANC expansion into Asia and strong double-digit revenue growth in PNC, we are setting the stage for growth with our range of premium brands. We are thrilled to see our core markets delivering gratifying sales performances whilst we are only at the start of our journey of introducing Swisse, Biostime, Zesty Paws, and Solid Gold into burgeoning markets around the world, where we are seeing promising growth potential for our brands," Mrs Albertini said.

Regional Highlights

Mainland China accounted for 73.8% of total Group revenue, led by a 6.5% increase YoY in sales in Biostime branded probiotics, a 12.9% uptick in the ANC segment and a 108.6% increase in the PNC segment. In the BNC segment, there has also been an increasing appetite in mainland China for goat milk IMF – the Group reported 7.5% growth for this product category in H1.

Mainland China accounted for 61.1% of total ANC revenue, driven by robust normal trade sales in the region. The Group reported net sales of RMB167.9 million in the first half of 2022 in its PNC segment. Solid Gold is garnering momentum as it ranked No. 1 in the imported cat food category on the Tmall platform and No. 2 in the premium cat dry food category whilst the brand received seven new licenses to sell pet food products on offline channels in the country to propel its growth to over 5,000 pet stores and hospitals.

"Our H1 results reveal a steady turnaround for H&H Group in mainland China, where we continued to deliver healthy revenue growth in response to consumer demand for quality products for the whole family despite supply chain challenges. It is in this market that we have seen major returns for

our strategic efforts in branding initiatives and investment in consumer education. We anticipate this payoff will continue well into the rest of 2022,” Mrs Albertini said.

Outside of mainland China, Biostime-branded business continued robust double-digit growth of 22.0% in France as it maintained its No. 1 ranking in the organic IMF and goat IMF categories in the pharmacy channel. Biostime, Dodie, and Good Goût were recognised as ‘Entreprise à Mission’ (purpose-led companies) in France.

In Australia and New Zealand, the Group achieved a 24.0% on an LFL basis increase in revenue YoY, with the growth supported by the rising demand for immunity-boosting products and the launch of innovative new products, including Swisse’s Nutra+ range and Swisse Collagen+ Hyaluronic Acid Tablets.

The US is now our third largest market, achieving 21.9% growth on a LFL basis for the first half of the year. This market, fuelled by Zesty Paws and Solid Gold sales, attributed 9.6% of the Group's total revenue.

Outlook for H2

Looking ahead for the remainder of the year, the Group is well-positioned to sustain the growth momentum it mapped out in H1. To manage rising inflation and supply chain issues, the Group has a mix of proactive initiatives, including product mix optimisation, increasing the price of selected SKUs, and enforcing improvements in sourcing and spending.

In the BNC category, the Group plans to shift its BNC segment into positive growth throughout the year, with the intention of stabilising its market position in the IMF business in mainland China, and continuing growth momentum in the probiotic category.

The Group is also projecting solid growth in core markets in its ANC business segment, from e-commerce and offline sales in mainland China, paired with steady domestic market sales in ANZ, and robust revenue growth in its burgeoning markets in Southeast Asia.

The US will continue to be the largest market with both online and offline sales in the PNC category, whilst the Group targets further growth in mainland China.

“Across the Group, we have plenty to look forward to in H2 as we stay committed to maintaining overall revenue growth for the full financial year. The outlook for us is incredibly promising – we expect to make solid progress across our three business segments as we continue our mission to make millions of people and their pets healthier and happier through our premium nutrition and personal care solutions,” Mrs Albertini said.

“Our expansion into Asia will be a key focus for us and, consequently, we are diversifying into more channels to further bolster this growth trajectory in Southeast Asia,” she said.

In addition, the Group drew down a 3-year term loan facility with an aggregate principal amount of US\$1.125 billion in June 2022 to refinance all its existing loan facilities. This new loan facility is a sustainability-linked loan with three ESG (Environmental, Social, Governance) targets that will unlock interest savings when each target is met. This successful refinancing arrangement has greatly improved the Group’s capital structure and liquidity position.

Sustainability Progress

The Group maintained its MSCI ESG Research rating of ‘A’ as sustainability touched every aspect of the business in the first half of 2022, and across the Group’s four core sustainability impact areas: ‘Advancing the Story of Good Health’, ‘Reducing Our Footprint on the Planet’, ‘Honouring Human Rights and Fairness’, and ‘Supporting Good Governance’.

“As a business that prioritises sustainability, we have made purposeful decisions, based on science, to Reduce Our Footprint on the Planet. Our sustainability strategy includes recently completing our Group-wide global carbon footprint assessment whilst we are taking actionable steps to define our greenhouse gas emissions reduction targets, following the Science Based Targets initiative (SBTi) framework. We are also focused on Advancing the Story of Good Health, through both our product portfolio – launching an impressive 104 new products whilst winning 23 product awards – as well as investing in the community through the H&H Foundation. In the first half of the year, we donated US\$1 million into community programmes, including support to the Red Cross in response to the Australian flooding crisis. Along with our mission to make people healthier and happier is our commitment to a long-term vision for growth that benefits society and the planet,” Mrs Albertini said.

In another important milestone, the Group has developed and approved company-wide Animal Welfare and Animal Testing policies and established an ESG committee to manage the Group’s sustainability strategy and to enhance the quality of disclosure.

The Group is also on track to achieve Group-wide B Corp certification by the end of 2025, which is a major milestone in its sustainability strategy. Teams in Australia, New Zealand and mainland China have submitted their B Corp applications, whilst the Group’s UK, France and US teams are in the application process.

FINANCIAL RESULTS

(RMB million unless otherwise stated)	Six months ended 30 June		
	2022	2021	Change
Revenue	5,955.4	5,424.3	9.8%
Gross profit	3,691.5	3,422.7	7.9%
EBITDA ¹	1,079.4	929.6	16.1%
Adjusted EBITDA ¹	1,056.1	1,066.4	-1.0%
Net Profit	475.1	501.4	-5.2%
Adjusted Net Profit ²	482.9	660.2	-26.9%

1. EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA - Non-cash gains of RMB46.8 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB151.7 million) + Non-recurring losses of RMB23.5 million for the six months ended 30 June 2022 (six months ended 30 June 2021: gains of RMB14.9 million)
2. Adjusted net profit = Net profit - EBITDA adjustment items of gains of RMB23.3 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB136.8 million) + Other non-cash losses of RMB31.1 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB22.0 million)

	Six months ended 30 June			
	2022	2021	Reported Growth	LFL Growth ³
	RMB million	RMB million	%	%
Revenue by product segment				
Baby nutrition and care products	3,183.8	3,299.3	-3.5%	-3.5%
<i>Infant formulas</i>	2,462.0	2,541.2	-3.1%	-3.1%
<i>Probiotic supplements</i>	494.3	464.4	6.4%	6.4%
<i>Other pediatric products</i>	227.5	293.7	-22.5%	-22.5%
Adult nutrition and care products	2,046.4	1,906.5	7.3%	14.9%
Pet nutrition and care products	725.2	218.5	231.9%	35.4% ³

Revenue by geography				
Mainland China	4,394.6	4,333.2	1.4%	3.4%
ANZ	692.5	597.9	15.8%	24.0%
US	571.0	151.5	276.9%	21.9%
Other territories	297.3	341.7	-13.0%	-10.7%
Group Total	5,955.4	5,424.3	9.8%	5.1%

3. The LFL change of PNC and US are on pro forma basis as if the revenue of Zesty Paws for the six months ended 30 June 2022 and 2021 were consolidated.

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