

Media Release – 22 March 2022

H&H Group delivers revenue growth and a healthy profit in 2021

- Group revenue grew 3.2% on a reported basis to RMB11,547.8 million in 2021, despite significant headwinds in the Baby Nutrition & Care segment in mainland China
- Adjusted EBITDA declined by 10.3% with a 16.0% adjusted EBITDA margin; adjusted net profit declined 12.4%
- Annual dividend payout ratio of 30% of adjusted net profit announced
- Solid results for the Adult Nutrition & Care segment, with double-digit growth for Swisse in mainland China, a turnaround in the Australia and New Zealand business and a growing presence in other territories
- Pet Nutrition & Care brands have begun to demonstrate synergies, with both Solid Gold and Zesty Paws delivering double-digit growth
- Biostime defended its position as the world's No.1 brand in the children's probiotics and prebiotics categories, while growing its market share lead in the organic Infant Milk Formula (IMF) category in the French pharmacy channel

Health and Happiness (H&H) International Holdings Limited (“H&H Group”, stock code: 1112) delivered positive revenue growth on a reported basis for the full year of 2021, while expanding its global presence and pursuing sustainable progress. The Group released its 2021 results to the Hong Kong Stock Exchange today.

In commenting on the results, Chief Executive Officer Laetitia Garnier said the Group continued on its journey to become a global leader in premium nutrition and wellness through its three business segments – Baby Nutrition & Care (BNC), Adult Nutrition & Care (ANC), and Pet Nutrition & Care (PNC).

“In 2021, we expanded our business footprint through enhancing the unique positioning of our aspirational brands, and accelerating the growth of our adult and pet nutrition and care segments and entry into new markets,” Ms Garnier said.

“While we faced industry headwinds, particularly in our mainland China baby nutrition and care segment, we proactively anticipated and responded to market conditions to pursue opportunities across our core markets globally.”

The BNC segment – led by the Biostime brand – contributed the largest proportion of the Group’s total revenue in 2021, followed by the ANC segment of which revenue was mostly attributed to Swisse. The Group’s total revenue grew 3.2% on a reported basis to RMB11,547.8 million in 2021 compared to the previous year.

The ANC and PNC segments delivered solid revenue growth of 6.9% and 37.0% respectively on a like-for-like (LFL) basis, with PNC including the consolidation of Solid Gold and Zesty Paws revenue for the full years of 2020 and 2021 – while the BNC segment registered a healthy profit.

“Throughout the year, we leveraged our agile operating model and diversified product categories to maintain the Group’s profitable growth,” Ms Garnier said.

“We were pleased to complete the acquisition of US leading online premium pet supplement brand, Zesty Paws, in October. We are also building strong growth momentum, as well as sales channel, supply chain and customer and consumer synergies with our other pet nutrition brand Solid Gold, which we acquired in late 2020.”

In announcing the Group’s annual dividend payout ratio of 30% of adjusted net profit, Ms Garnier commented “We are committed to rewarding our shareholders with a consistent dividend policy.”

MAINLAND CHINA

The Group’s ANC segment revenue in mainland China increased by 10.8% year-on-year, while the BNC segment declined 10.8% on a LFL basis. The PNC segment, representing Solid Gold which officially entered the mainland

China market in April 2021, delivered 45.3% revenue growth on a LFL basis.

“China’s declining birth rate has resulted in a smaller overall market and demand for baby nutrition and care products compared to previous years. To mitigate this, we have proactively expanded our distribution of IMF products into lower-tier cities, and focused on categories such as super-premium cow IMF and goat milk IMF,” Ms Garnier said.

“According to Nielsen, we increased the retail sales values of our super-premium cow milk IMF and goat milk IMF categories by 22.5% and 33.6% respectively compared to the previous year, achieving third-place market share rankings in both categories.”

“This approach enabled us to maintain Biostime’s stable position in the overall IMF market in mainland China and generate healthy cash flow in 2021. We expect, however, intensifying competition in the IMF industry, and particularly in goat milk IMF as more brands enter the market. This year we are focusing on continuing to stabilise our market position and profitability through our distribution expansion strategy, which aims to improve sales output per single outlet.”

Ms Garnier said to turnaround the performance of its children’s probiotics category – which was impacted by a high base during the Covid peak in the first half of 2020 and intensifying competition, and decreased 31.1% in revenue year-on-year in 2021 – the Group would target distribution and customer education to boost sales revenue, and explore new strategies aimed at customer acquisition to improve penetration in the category.

“We will continue to leverage Biostime’s position as the No.1 children’s probiotics and prebiotics brand globally as we roll out these initiatives, and expect this category to return to its long-term growth trend within our mainland China business as it becomes an increasingly recognised global brand.”

The Group’s ANC segment delivered strong double-digit growth of 48.7% in mainland China’s normal trade channel – including online and offline – by introducing new localised products in innovative categories and achieving more ‘blue hat’ regulatory approvals to allow products to be sold in this channel.

“In 2021, Swisse maintained its leading position in mainland China’s overall online supplement market, and performed strongly in the largest online shopping festivals, 618 and Double 11. This reflects the brand’s ongoing popularity and solid reputation within this market and instils confidence in its continued growth potential.”

Regarding the PNC segment, Ms Garnier said that Solid Gold had recently received seven new licenses in January 2022 to sell pet food products in mainland China’s offline sales channel, which would propel its future growth.

“Our pet nutrition and care segment will likely become one of our major growth drivers globally. To ensure we build a strong foundation for success in mainland China, we will continue to invest in establishing a sustainable active sales model that delivers synergies for our two pet nutrition and care brands, Solid Gold and Zesty Paws.”

AUSTRALIA & NEW ZEALAND (ANZ)

In the ANZ market, Ms Garnier said that the Group posted 3.8% revenue growth year-on-year for the ANC segment – which constituted 96.4% of total revenue in that market – and 55.6% growth for the BNC segment. According to independent data provider IQVIA, Swisse’s market share in the domestic Australian vitamin, herbal and mineral supplement market (excluding retail daigou) improved to 11.7%¹ in 2021, from 11.0% the previous year.

“Considering the retail daigou channel is unlikely to return in any significant form in the near term, we are continuing to focus on Australia and New Zealand-based consumers,” Ms Garnier said.

“This means expanding our presence in the grocery channel and accelerating our digitalisation strategy, to improve our ecommerce approach. In 2021, these efforts resulted in robust 8.1% and 77.0% year-on-year revenue

¹ Market share data from IQVIA, for the 12 months to 31 December 2021

growth in the grocery and ecommerce channels respectively.”

OTHER TERRITORIES

The Group reported a 69.9% revenue increase year-on-year for territories outside its core markets of mainland China and Australia and New Zealand. These other territories accounted for 10.0% of the Group’s total revenue in 2021.

“As we strategically globalise our core brands, we expect to see more revenue contribution from markets where we see, and are investing in, future growth potential,” Ms Garnier said.

“In every market in which we operate, we work to ensure our target consumers have readily available access to our products in the way they prefer to shop, and that our localised product innovations are based on a combination of science and consumer-led trends.”

“We are particularly pleased with the performance of Biostime in France in 2021, which delivered strong double-digit growth. Biostime continued to retain its No.1 position in the organic IMF category of the French pharmacy channel, growing to 40.3% value market share². We have also recently launched Biostime children’s probiotics in the US.”

“In the past two years, we have launched Swisse in 11 new markets. We are seeing particularly strong momentum for Swisse’s vitamin, herbal and mineral supplement products in Italy, United Kingdom, Hong Kong SAR, Malaysia and India. For example, Swisse is ranked No.2 in the beauty supplements categories in Italy, as well as in Singapore where it is also ranked No.3 in the multivitamins category.”

Regarding plans for the Group’s newest brand acquisition, Zesty Paws, Ms Garnier said the Group would focus its attention on the US market in the next few years, while progressively expanding the brand to other markets, beginning with mainland China’s cross-border ecommerce channel.

“In the US market, Solid Gold recorded 18.0% year-on-year revenue growth, performing strongly both online and offline, while Zesty Paws achieved a new record high with a strong increase of 43.6% compared to the previous year. Both these brands are benefiting from growing spends on premium pet nutrition and high rates of pet adoption.”

SUSTAINABILITY PROGRESS

The Group will release its 2021 Sustainability Report on the same day as its Annual Results Report on 25 March. In 2021, the Group’s Morgan Stanley Capital International (MSCI) ESG rating of ‘A’ and Hong Kong Quality Assurance Agency (HKQAA) rating of ‘A’ for ESG performance were confirmed.

“We have made progress across all aspects of sustainability in 2021. We are continuing to embed improved ESG practices throughout our global business – both within our operations and through working with our supply chain partners,” Ms Garnier said.

“To ensure this approach is adopted throughout our global business of more than 3,300 team members across 15 markets, our executives’ sustainability KPIs continue to be tied to their compensation. We are extending this sustainability incentivisation scheme to our senior managers in 2022.”

In terms of charitable contributions, the Group gained B4SI accreditation to deliver improved benchmarking and reporting in 2021. In total, the Group invested USD2.267 million in community initiatives through its H&H Foundation during the year.

Ms Garnier said achieving Group-wide B Corporation remains a key sustainability goal: “We are on track with our target to achieve B Corporation certification by 2025. On this path to B Corp we are progressively working to certify each of our markets, and aim to achieve certification for our Australia and New Zealand business next

² According to independent data provider GERS, for the data year 2021

year.”

“We are committed to contributing to global carbon neutrality by reducing our carbon emissions throughout our operations, and financing carbon sequestration projects outside of our value chain. In 2021, we joined the Climate Ambition Accelerator program as part of the United Nations Global Compact, and ensured 100% of our electricity consumption was covered by electricity from renewable sources. In 2022, we will extend the auditing of our carbon footprint from Scope 1 and 2 to Scope 3 emissions.”

“Our sustainable business model targets long-term growth that benefits our stakeholders, society, and the planet. We remain confident about the long-term prospects of our product and geographic diversification strategy as we work towards our vision of becoming a global leader in premium nutrition and wellness.”

FINANCIAL RESULTS

(RMB million unless otherwise stated)	Twelve months ended 31 December		
	2021	2020	Change
Revenue	11,547.8	11,194.7	3.2%
Gross profit	7,248.0	7,187.0	0.8%
EBITDA	1,428.9	2,156.8	-33.7%
Adjusted EBITDA ¹	1,851.9	2,065.2	-10.3%
Net Profit	508.5	1,136.7	-55.3%
Adjusted Net Profit ²	952.9	1,087.6	-12.4%

¹ Adjusted EBITDA = EBITDA + Non-cash losses of RMB361.7 million for the year ended 31 December 2021 (2020: gains of RMB69.2 million) + Non-recurring losses of RMB61.3 million for the year ended 31 December 2021 (2020: gains of RMB22.4 million)

² Adjusted net profit = Net profit + EBITDA adjustment items of losses of RMB423.0 million for the year ended 31 December 2021 (2020: gains of RMB91.6 million) + Other non-cash losses of RMB21.4 million (2020: losses of RMB42.5 million)

	Twelve months ended 31 December			
	2021	2020	Reported	LFL
	RMB million	RMB million	Change	Sales Growth
			%	%
Revenue by product segment				
Baby nutrition and care products	6,612.2	7,301.0	-9.4%	-9.4%
<i>Infant formulas</i>	5,146.4	5,244.2	-1.9%	-1.9%
<i>Probiotic supplements</i>	964.4	1,395.7	-30.9%	-30.9%
<i>Other pediatric products</i>	501.4	661.1	-24.2%	-24.2%
Adult nutrition and care products	4,209.2	3,867.5	8.8%	6.9%
Pet nutrition and care products	726.4	26.2	2,668.1%	N/A
Revenue by geography				
Mainland China	9,084.6	9,276.1	-2.1%	-5.3%
ANZ	1,307.4	1,238.4	5.6%	3.8%
Other territories	1,155.8	680.2	69.9%	3.8%
Group Total	1,1547.8	11,194.7	3.2%	-3.8%

The 2021 Annual Results announcement is available [here](#). The full 2021 Annual Results Report and 2021 Sustainability Report will be released to the HKEx on 25 March 2022.

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