

Nutritional supplements propel strong revenue and EBITDA growth for H&H Group in 2023

- Reported revenue growth of 9.0% with revenue of RMB13,926.5 million and adjusted EBITDA growth of 12.4%
- Nutritional supplements contributed to the majority (60.4%) of total Group revenue with 30.0% reported growth
- Adult Nutrition and Care (ANC) segment achieved strong growth of 34.8% on reported basis, with Swisse solidifying its no.1 position in the mainland China online market¹, becoming the no.1 brand in the Australian market² and passing the AUD1 billion global sales milestone³ (a three times sales increase since our acquisition)⁴
- Baby Nutrition and Care (BNC) segment confined to low-teen decline amidst industry headwinds in mainland China, while achieving slight market share gain in the super-premium infant milk formula (IMF) segment in mainland China and maintained healthy profitability
- Pet Nutrition and Care (PNC) segment saw strong growth of 18.2% on a like-for-like (LFL) basis
- Continued to deleverage balance sheet with leverage of 3.2x 2023 Pro-forma Net Debt/EBITDA⁵ supported by strong operating cash flow conversion of 93.6% on a pro-forma basis⁶
- Achieved significant sustainability milestones with five H&H entities receiving B Corp certification, upgrading Morgan Stanley Capital International (MSCI) ESG rating to 'AA' and Hong Kong Quality Assurance Agency (HKQAA) rating to 'A+' for ESG performance

Leading global family nutrition company Health and Happiness (H&H Group) International Holdings Limited (stock code: 1112.HK) has announced its 2023 annual results, achieving another year of top-line growth and positive EBITDA across all three of the Group's business segments.

Akash Bedi, Group CEO and CEO of North America, Europe, Middle East and India at H&H Group, says "2023 was a significant year for the Group, we met our full year targets to see robust growth and achieved pivotal milestones across the board. Our world-class brands, adaptable business structure, diversified product mix and sustainability progress have enabled us to successfully navigate the dynamic global market landscape and drive growth. It's very pleasing to see our business strategy reaping rewards with fast-growing and high-margin nutritional supplements⁷ becoming our largest revenue driver across each of our three business segments. We continued our strategy of winning in core markets as Swisse further consolidated its position as the no.1 brand in online Chinese market and became the no.1 VHMS brand domestically in Australia, while Biostime maintained its leadership in the paediatric nutritional supplements category in mainland China and secured the no.4 position in the super-premium IMF category⁸. Additionally, Zesty Paws maintained its no.1 positions on Amazon and Walmart⁹."

Mr Bedi continues, "Investing in the future remained a key growth driver as we solidified our globalisation journey with success across our key expansion markets including Southeast Asia, India and the Middle East. Sustainability continued to be a strategic priority, yielding success with five of our entities achieving B Corp certification. We effectively capitalised on key consumer trends to develop innovative wellness solutions for our consumers and customers, driving us towards our mission of becoming a global leader in whole family health and wellness."

2024 marks a momentous year for the Group, celebrating 25 years since its launch. H&H has gone from being a RMB1.2billion company in 2010 to a RMB14billion company today, from one consumer brand in one market to seven brands across three segments in 16 active markets.

Mainland China

Mainland China continues to be the Group's largest market, achieving 4.0% growth and making up 71.6% of total Group revenue. The ANC segment grew 37.4% on a LFL basis accounting for 66.0% of total Group ANC revenue, with Swisse outpacing competitors to expand its market share to 8.0%.

¹According to research statistics by Early Data, Swisse ranked No. 1 in the China online VHMS market with a market share of 8.0% for the twelve months ended 31 December 2023 as compared with 7.6% for the twelve months ended 31 December 2022.

²Based on total market unit sales, according to research statistics by IQVIA, an independent research company, market share data for the 2023 year.

³Twelve months to 30 June 2023

⁴Swisse Global, net revenue increase from the twelve months ended 30 June 2015 (before acquisition by H&H) to the twelve months ended 31 December 2022

⁵The pro forma leverage ratio will be 3.2x, adjusted by the strategic choice we made to maintain healthy level of channel inventory ahead of the new GB IMF products launch in the year end of 2023.

⁶A total of RMB2,075m pro forma basis is adjusted by: i) strategic choice we made to maintain healthy level of channel inventory ahead of the new GB IMF products launch in the year end of 2023; ii) the cutoff delay of payment from one customer due to logistics in year end of 2023; iii) the prepayment from customers due to the seasonality of Chinese New Year in the year end of 2022.

⁷Nutritional supplements include Swisse VHMS products, Biostime probiotic supplements, Biostime paediatric products, and Solid Gold and Zesty Paws pet supplements.

⁸Nielsen market share data for the past twelve months as of 31 December 2023

⁹Market share data from NielsenIQ Byzzer for the 52 weeks period ending 30 December 2023

Mr Bedi emphasises, “Our ANC segment in mainland China has exceeded our expectations, led by our Swisse brand which reinforced its leadership in the online market¹⁰. We have successfully stayed abreast of key consumer trends, particularly the rise in health conscious Chinese post-COVID, to achieve tremendous results both on and offline, ranking no.3 in normal trade with 2.6% market share¹¹, covering 62,393 offline distribution points. Additionally, 21 of our 55 SKUs have now been ‘blue hat’ certified, reinforcing our credibility and superiority in the market. Our diversified product offering including Swisse Plus+, Little Swisse and Swisse Me, has expanded our consumer base and enabled us to excel in new categories. High-end sub-brand, Swisse Plus+, has been a stand-out success since its launch, achieving no.2 in the NAD+ range and leading in the high-end thistle segment in the e-commerce channel¹². The Swisse Plus+ range made a double-digit contribution to total China ANC revenue for 2023 and drove profitability for the overall business.”

For BNC, the Group leveraged its position as the no.1 paediatric nutritional supplement brand in mainland China, while sustaining 12.4% market share in the super-premium IMF segment. The decline in IMF revenue by 15.5% was mitigated by the positive performance of paediatric probiotic and nutritional supplements segments by 8.8%. The relaunch of Biostime’s new GB standards-compliant IMF series will help to anchor Biostime competitiveness and maintain healthy profitability in a changing sales landscape.

“The Group has showed immense resilience against significant pressures affecting the entire IMF industry in mainland China stemming from increased competition during the transition to the new GB standards. Our flexible, forward-thinking and innovative business model has enabled us to navigate these challenges,” says Mr Bedi.

In 2023, H&H continued to capitalise on the booming pet adoption rate, notwithstanding slower industry growth, to see double-digit growth in the PNC segment in mainland China (20.8%). This was driven by Solid Gold which maintained its position as the no.2 brand in the online premium cat dry food category with 13.3% market share¹³, and expanded its reach both online and offline to enter 9,200 pet stores and pet hospitals.

Australia & New Zealand (ANZ)

ANZ, the Group’s second largest market by revenue, celebrated another year of remarkable growth (28.7% on a LFL basis), fuelled by overall category growth.

Mr Bedi comments, “In ANZ, we’ve had an exceptional year with Swisse solidifying its place as the no.1 overall VHMS brand in the domestic market¹⁴, thanks to our continued focus on its home market. Swisse has extended this leadership across multiple categories including no.1 in Digestive & Liver health, Beauty from Within, Multivitamins and Muscle health and no.2 in bone health, heart health, nutritional oils, stress/sleep, superfood supplements and women’s health¹⁵. Strong retail activation and innovation has been pivotal to our success, with new formats such as Swisse Gummies (holding firm its position as no.2 in its category and expanding to 14.3% market share¹⁶), along with disruptive marketing campaigns implemented in close collaboration with our channel partners leveraging our PPAE Model (Premium, Proven, Aspirational, Engaging).”

North America

North America achieved 17.2% overall growth on a LFL basis and positive EBITDA contribution to total Group revenue. Zesty Paws was integral to this surge in sales in the region (21.7% growth) thanks to significantly expanding its distribution network across North America. Solid Gold returned to growth as a result of innovative new product launches, entering the US’ largest retailer, Walmart, and completed transition to a new marketplace model on Amazon.

“The soaring numbers of pet ownership, as well as skilfully tapping into key pet humanisation and premiumisation trends, has fuelled our growth across North America,” says Mr Bedi. “Zesty Paws cemented itself as the leading brand in the overall pet supplement category on Amazon and on Walmart less than two years from launch. We strategically enhanced our portfolio to enter new categories such as Healthy Aging for Zesty Paws and Air-Dried for Solid Gold. Both brands expanded on and offline and are now present in 17,000 (Zesty Paws) and 4,500 (Solid Gold) stores.”

¹⁰ According to research statistics by Early Data, an independent data provider, market share data for the 2023 year.

¹¹ Based on sales data from Earlydata, including Tmall and JD bulk trade

¹² According to research statistics by Early Data, an independent research company, high-end thistle segment refers to the average price of a single bottle is over RMB300. Market share data for the past twelve months as of 31 December 2023

¹³ According to research statistics by SmartPath, an independent research company, market share data for the past twelve months as of 31 December 2023.

¹⁴ Based on unit sales, market share data from IQVIA, MAT 31 December 2023

¹⁵ Market share data from IQVIA, MAT 31 December 2023

¹⁶ Market share data from IQVIA, MAT 31 December 2023

Other Territories

2023 saw the Group's other territories achieve healthy growth of 9.6%, with a robust growth of 26.4% in Asian expansion markets.

"I'm particularly pleased to see the strong performance in our expansion markets: Italy, Hong Kong SAR and Singapore, strengthening our leadership around the globe. We proudly secured the no. 1 position in beauty VHMS, liver health and men's health in Singapore¹⁷ and achieved our highest ever VMS share¹⁸, while we reaffirmed our no. 2 market position in beauty VHMS in Italy¹⁹. 2023 also saw us further strengthen our global footprint and achieve strong growth momentum in new markets across Southeast Asia, India, and the Middle East."

Innovation was a core focus for the Group in Europe, launching new products such as 'Inostime' in France, a game-changing IMF series enriched with Lactopontin (LPN) which looks set to positively impact the French business in 2024. Biostime retained its no.1 position in the organic IMF and goat milk market categories in French pharmacy channels, with market shares of 41.6% and 41.9%, respectively²⁰.

Sustainability Progress

Mr Bedi says sustainability is at the heart of the Group's long-term growth strategy and is proud of the tremendous strides made in the 12 months to 31 December 2023.

"As a purpose-led organisation, we are committed to making a positive impact on people, society and the planet through pioneering efforts to act on climate change, supporting our communities, furthering innovation, and fostering a diverse and inclusive workforce. Achieving B Corp certification for five of our entities is the first step in our journey for Group-wide B Corp certification, and one that reflects our commitment to benefit all our stakeholders, from our team members to our consumers, customers, and communities, to our suppliers, partners, and the environment."

The Group also cemented itself as a global leader in sustainability, upgrading its Morgan Stanley Capital International (MSCI) ESG rating to 'AA' and Hong Kong Quality Assurance Agency (HKQAA) rating to 'A+' for ESG performance. In addition, the Science Based Targets initiative (SBTi) has approved H&H's GHG emissions reduction targets, reflecting the Group's alignment with global efforts to mitigate the impacts of climate change.

2023 was also an important year for the Group's corporate charity arm, the H&H Foundation, which marked its 10th anniversary. Focusing on H&H's wellness pillars of Nutrition, Movement, and Mind, since the start of its journey, over USD10 million has been donated to more than 64 charities in 12 countries, making a positive impact on the lives of over 15,000 people.

2024 Outlook

Looking ahead, amid market normalisation, the Group is resolutely committed to its long-term growth strategy of winning in core, globalisation & diversification, and investing in the future, to maintain its upward growth trajectory across all business pillars.

"As we celebrate our 25th anniversary this year, we will build on the momentum from the incredible milestones we accomplished in 2023," remarks Mr Bedi. "Nutritional supplements will remain our largest source of revenue and a cornerstone for growth across our ANC, BNC and PNC pillars. We aim to further capitalise on market trends and investing in the future by innovating in emerging categories and expanding our global footprint. Optimising our capital structure will stay a core priority as we look to improve and deleverage our balance sheet."

The outlook for the ANC segment looks positive, with mainland China steadfastly remaining as the main growth driver, even as market growth returns to normal levels in early 2024, after experiencing a temporary surge in demand at the beginning of 2023 post-COVID. Swisse's mega-brand strategy will continue to fuel growth by remaining at the forefront of innovation and emerging consumer trends, as the Group leverages its leading positions and continues winning in core markets mainland China and ANZ, while enhancing its product portfolio across immunity, beauty nutrition and general wellness.

The BNC segment in mainland China looks set to stabilise as the Group leverages its competitive range of GB-approved IMF series', expects more stable birth rates and focuses on probiotics and nutritional supplements. Additionally, the Group will extend its no.1

¹⁷ According to research statistics by Nielsen, an independent research company, market share data for the past twelve months as of 31 December 2023.

¹⁸ According to research statistics by Nielsen, market share data MAT as of 31 December 2023 in Total VMS category

¹⁹ According to research statistics by IMS IQVIA, an independent research company, market share data for the past twelve months as of 31 December 2023.

²⁰ GERS, MAT 31 December 2023

market share position by developing its infant and kids ranges as well as prioritising other categories including DHA, calcium, gummies, and functional probiotics products.

Investing in future growth is a core priority for the PNC segment as the Group expands Zesty Paws' leadership in North America through an omni-channel approach, and targets globalisation. Simultaneously, the focus for Solid Gold will be premiumising product offerings across North America and mainland China.

The Group will take advantage of its high cash-generating business model to further deleverage, improve its balance sheet and optimise its capital structure in 2024. Driven by diversifying sources of funding, lowering the leverage and reducing the cost of debt, H&H expects to maintain a healthy liquidity position and a consistent dividend payout.

FINANCIAL RESULTS

	Year ended 31 December		
	2023	2022	Change
	RMB million	RMB million	
Revenue	13,926.5	12,775.9	9.0%
Gross profit	8,294.3	7,703.5	7.7%
EBITDA*	1,984.9	1,847.9	7.4%
Adjusted EBITDA*	2,215.5	1,971.9	12.4%
Adjusted EBITDA margin	15.9%	15.4%	0.5pts
Net profit	581.8	611.8	-4.9%
Adjusted Net profit**	778.3	731.2	6.4%
Adjusted net profit margin	5.6%	5.7%	-0.1pts

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA + Non-cash losses of RMB45.4 million for the year ended 31 December 2023 (2022: losses of RMB18.2 million) + Non-recurring losses of RMB185.2 million for the year ended 31 December 2023 (2022: losses of RMB105.8 million)

** Adjusted net profit = Net profit + EBITDA adjustment items of losses of RMB230.6 million for the year ended 31 December 2023 (2022: losses of RMB124.0 million) - Other non-cash gain of RMB34.1 million for the year ended 31 December 2023 (2022: gain of RMB4.6 million)

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About H&H Group

H&H Group is a global health and nutrition company. Dynamic, courageous and ambitious in its mission to make people healthier and happier, the Group strives to inspire wellness while contributing positively to the needs of society and the planet. The Group has three business segments – Adult, Baby and Pet Nutrition and Care – supporting whole-family health and happiness, with premium brands providing nutrition and wellness solutions backed by science. Consumer brands include Biostime, Swisse, Zesty Paws, Solid Gold Pet, Dodie, Good Goût, and Aurelia London. The Group is headquartered in Hong Kong SAR and listed on the Hong Kong Stock Exchange ("H&H INTL HLDG" stock code 1112), with a second head office in London. More than 3,300 team members are located across 16 countries. www.hh.global

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