

Wellness and Beauty Solutions Ltd

Putting on a brave face against COVID headwinds

Wellness and Beauty Solutions operates a suite of owned and licenced wellness, beauty and lifestyle brands and a network of nine Immersion Clinical Spas around Australia. The company sells its brands to the professional and retail markets through its subsidiaries, The Giving Brands Company and True Solutions. The company has recently announced the acquisition of the Organic Nation cosmeceutical range for an initial scrip payment of \$250k (at \$0.007/share), cash for \$120k stock and a remaining payment up to a maximum of \$300k if key performance milestones are met after one year. The Organic Nation range of anti-ageing skin and body care products is currently sold in more than 100 clinics in Australia and Canada. The company ended FY20 with net debt of \$1.55m which included cash of \$1.04m. WNB has strengthened its balance sheet in FY20 through a \$6.0m institutional placement in December 2019 and a further \$1.52m placement/share purchase plan in May 2020. In Q4, the company also reached agreement with its unlisted convertible note holders to convert \$1.4m in outstanding notes for shares and to extend the term of remaining notes by 16 months to October 2021. WNB noted sales in July and August were up strongly on sales for the previous six months.

Business model

Wellness and Beauty Solutions operates two divisions – its network of nine Immersion Clinical Spas around Australia and its Lifestyle Products division under which its two subsidiaries, True Solutions Australia (TSA) and The Giving Brands Company (GBCo) operate. Currently the Immersion clinics are closed due to COVID-19. WNB operates a number of brands including the MICRO19 anti-bacterial hand sanitiser and surface spray range which generated its first sales (\$0.22m) in Q4 FY20 and is available at allied health services locations and retailers including Chemist Warehouse; ELLE makeup which, with MICRO19, has been launched into Singapore; and the Jbronze range by Jennifer Hawkins is available in 800+ Coles supermarkets. WNB has also recently secured a 3-year, \$3m minimum sales contract with CARE Distributors for the supply of MICRO19 to transport and infrastructure industries.

Recent company commentary

WNB reported FY20 revenues of \$10.3m, up 3.7% on the previous corresponding period and a net loss adjusted for one-time items and impairments of \$8.5m, compared with a \$7.0m adjusted loss in FY19. The adjusted operating loss for the year was \$5.1m, which was an improvement on FY19. The company's performance, in particular its Immersion Clinical Spa network, was severely impacted by both the summer bushfires and the COVID-19 pandemic. WNB noted that the immersion clinics posted an EBITDA loss of \$1.2m in FY20 compared with a \$0.7m loss in FY19 and took a \$2.9m impairment charge in FY20. Revenues from the company's Lifestyle Products division were \$5.8m in FY20, up from \$1.3m in FY19 with the acquisition of TSA being the main contributor of this growth.

Larger peers in the personal care space

McPhersons and NSX-listed Heritage Brands are the two closest listed peers in the personal care space. Both are substantially larger in terms of market cap but can give investors a sense of the margins and multiples that can be expected of this sector.

Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.* (A\$m)	NPAT Rep.	EPS Adj.*(c)	EPS Rep. (c)	^EV/Sales (x)
06/17a	19.6	0.8	(0.9)	(2.5)	(0.7)	(2.0)	1.0
06/18a	14.8	(2.4)	(4.2)	(11.7)	(3.3)	(9.3)	1.0
06/19a	9.9	(5.7)	(7.0)	(13.3)	(2.4)	(4.7)	0.8
06/20a	10.3	(5.1)	(8.5)	(11.8)	(1.5)	(2.0)	0.9

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items ^Y/E share price

Consumer discretionary

4 September 2020

Share details

ASX Code	WNB
Share price (3-Sep)	\$0.006
Market Capitalisation	\$8.1M
Shares on issue post raise	1.32B
Net debt at 30/06/2020	\$1.55M
Free float	46.9%

Share performance (12 months)



Upside Case

- Asian expansion opportunity for MICRO19/ELLE
- Organic Nation acquisition expands footprint to North America (Canada)
- Costs and restructuring focus in H2FY20 have improved cost base and balance sheet metrics

Downside Case

- Likely to need more capital before profitable
- COVID-19 continues to delay the re-opening of the Immersion Clinical Spas
- Challenging time for business divestment

Catalysts/upcoming events

Q1 (Oct 2020) and Q2 (Jan 21) quarterly results and further detail on the contributions from Organic Nation and sales of MICRO19, JBronze and ELLE

Comparable companies (Aust/NZ)

Heritage Brands (NSX:HBA), McPhersons (ASX:MCP)

Top 5 shareholders

TIGA Trading Pty Ltd	13.31%
Christine Parkes	4.01%
EGEA Pty Ltd	1.96%
Geoffrey Pearce	1.77%
Regal Funds Management	1.63%

Company contacts

Rebecca Wilson (IR) +61 417 382 391
 rwilson@we-worldwide.com

RaaS Advisory contacts

Finola Burke +61 414 354 712
 finola.burke@raasgroup.com



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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