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McPherson's preliminary unaudited results for 1H FY2017

Underlying PBT from continuing operations up 1.2% to $11 million

Statutory loss before tax of $10 million

56% reduction in net debt over the 12 months to $41 million

McPherson's Limited has completed its preliminary, unaudited results for the six months to 31 December 2016, generating underlying profit before tax of $11.0 million[1] for FY2017 (FY2016: $10.9 million[1]).

External conditions impacting some businesses and a review of the carrying value of all intangibles have resulted in the non-cash impairment of intangible assets of $19.8 million (before tax) being brought to account, resulting in a statutory loss before tax for the half of $10.0 million (FY2016: $13.5 million profit).

The increase in underlying profit has been achieved through significantly improved EBIT margins in the company's core Health & Beauty and Household Consumables brands, despite the material adverse impact of depreciation in the AUD/USD exchange rate in 1H FY2017 in comparison with 1H FY2016.

Sales revenue declined by 11.5% to $148.9 million (1H FY2016: $168.3 million) reflecting the closure of the unprofitable Impulse Merchandising Division and declines in low margin private label and agency revenues.

Preliminary, unaudited results summary	**1H FY2017 ($ million)**	**1H FY2016 ($ million)**	**Change (%)**
Sales revenue	148.9	168.3	(11.5)
Underlying EBIT[1]	13.5	14.5	(6.6)
Underlying profit before tax[1]	11.0	10.9	1.2
Underlying profit after tax[1]	7.9	7.3	8.0
Statutory (loss) \ profit before tax	(10.0)	13.5	(174.2)
Statutory (loss) \ profit after tax	(11.8)	10.1	(217.0)
Net Debt	40.9	92.8	(55.9)
Underlying earnings per shares (cents)	7.7	7.5	1.6
Statutory (losses) \ earnings per share (cents)	(11.4)	10.4	(210.2)

[1] Underlying amounts exclude the following significant non-recurring items before tax:
1H FY2017: $19.8m impairment of intangible assets; $0.2m profit recognised from the divestment of Impulse Merchandising operation; $0.8m restructuring costs; $0.7m bond buyback costs.
1H FY2016: $1.6m increase in contingent consideration from the Housewares divestment; $1.5m 49% share of Housewares JV profit; $0.2m restructuring and $0.2m legal & acquisition costs.

The company’s balance sheet has materially strengthened with net debt reducing by 56% over the 12 months to 31 December 2016 to $40.9 million ($92.8 million at 31 December 2015). Improved working capital efficiency, strong operating cash flow and the divestment of the remaining 49% interest in the Housewares joint venture on 31 March 2016 have materially reduced the company’s gearing.

The buyback of an additional $10 million of fixed rate corporate bonds in November 2016, in combination with reduced debt levels will result in lower borrowing costs going forward.

Laurence McAllister, Managing Director, said “Demand remains strong and the business is well configured to capitalise on further enhancing its market leading brands and its agency relationships with Trilogy International and Coty Fine Fragrances.

“Improved EBIT margins from core brands, a more favourable hedged AUD/USD profile in comparison with last year and reduced borrowing costs are anticipated to lead to an increase in underlying profit before tax from continuing operations for the second half of FY2017 and for the year ended 30 June 2017 in comparison with FY2016”.

Given strength in the company’s underlying earnings and cashflow, coupled with reduced debt, the non-cash impairment of intangible assets is not expected to have a material impact on the application of the Group’s policy of paying at least 60% of underlying profit after tax (excluding non-cash, non-recurring items) as dividends.

The demise of the Masters chain of hardware stores and weakness in the Commercial Homebuilder channel has lead to a reassessment of the carrying value of intangible assets in the Home Appliances division, resulting in non-cash impairments of $7.0m and $5.0m in goodwill and brandnames respectively. Additionally, due to continued range rationalisation, the valuation of the Revitanail brand and goodwill recorded in the Group’s New Zealand operation have both been subject to non-cash impairments of $6.0m and $1.8m respectively.

Laurence McAllister said “Whilst prudent application of accounting standards has necessitated the non-cash impairment of intangible asset values associated with the Home Appliances Division, New Zealand operations and the Revitanail brand, management has well advanced plans to improve the profitability of these assets”.

A more detailed overview of 1H FY2017 divisional performance together with details of restructuring initiatives in progress will be provided with the half year results announcement, due for release on Tuesday 21 February 2017.

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About McPherson’s

McPherson’s, established in 1860, is a leading supplier of health & beauty, household & personal care, and home appliance products in Australasia, with operations in Australia, New Zealand and Asia. The health & beauty division markets and distributes beauty care, hair care, skin care and fragrance product ranges; the household & personal care division markets and distributes kitchen essentials such as baking paper, cling wrap and aluminium foil and personal care items such as facial wipes, cotton pads and foot comfort products; the home appliance division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers.

McPherson’s manages some significant brands for overseas agency partners such as Gucci and Hugo Boss prestige fragrances and Trilogy skincare; however, the majority of revenue is derived from the company’s diversified portfolio of owned market-leading brands, including Manicare, Lady Jayne, Dr. LeWinn’s, A'kin, Swisspers, Moosehead, Maseur, Multix, Euromaid and Baumatic.