

ASX/Media Release

21 February 2018

(ASX: MCP)
McPherson's 1H 2018 Results
(Underlying PBT of \$11.0m¹; Statutory PBT \$3.8m)

- **Underlying¹ profit before tax in line with prior period**
- **26% reduction in net debt over the last 12 months from \$41m to \$30m**
- **Successful execution of business transformation initiatives**
- **Strong growth in sales of skincare product to China**
- **Now solely focussed on growth in Health, Wellness and Beauty categories**
- **Poised to divert capital into investments that will enhance our branded footprint and utilise existing capacity and operational strengths**

McPherson's Limited today announced final 1H 2018 results, consistent with the preliminary results released to the ASX on 1 February 2018, being underlying profit before tax for the half year to 31 December 2017 of \$11.0 million¹ (1H 2017: \$11.0 million¹), inclusive of the underlying result of its Home Appliances Division and a statutory profit before tax of \$3.8 million (1H 2017: (\$10.0 million) loss).

Total sales revenue decreased by 5.4% from \$148.7 million to \$140.6 million inclusive of the discontinued operation, Home Appliances.

Directors have declared an unchanged interim dividend of 6.0 cents per share (cps) fully franked, payable on 22 March 2018 to shareholders on the register at 5 March 2018. The dividend re-investment plan remains in place.

<u>Underlying results inclusive of Discontinued Operation</u>	1H 2018 (\$ million)	1H 2017 (\$ million)	Change (%)
Sales revenue	140.6	148.7	(5.4)
Underlying EBIT ¹	12.7	13.5	(6.3)
Underlying profit before tax ¹	11.0	11.0	(0.7)
Underlying profit after tax ¹	7.3	7.9	(7.9)
Underlying EPS (cps) ¹	7.0	7.6	(7.5)
Interim dividend (cps – fully franked)	6.0	6.0	-

Sales revenue from continuing operations, excluding Home Appliances, declined by 7.4% to \$106.1 million (1H 2017: \$114.5 million), largely due to the anticipated reduction in ranging of Multix in the grocery channel and declines in lower margin private label and fragrance agency sales. Importantly, McPherson's saw an improvement in contribution margin as a result of growth in sales volumes of higher margin owned brands such as Manicare, Dr. LeWinn's and A'kin.

¹ Underlying amounts exclude the following significant non-recurring items before tax:

1H 2018: \$6.4m impairment of goodwill related to Home Appliances and \$0.8m restructuring costs.

1H 2017: \$19.8m impairment of intangible assets; \$0.2m profit recognised from the divestment of Singapore's Impulse Merchandising business; \$0.8m restructuring costs and \$0.7m bond buyback costs.

² Continuing operations results exclude the significant non-recurring items outlined above and the following items before tax:

1H 2018: \$1.5m Home Appliances trading profit.

1H 2017: \$1.7m Home Appliances trading profit.

Underlying profit before tax on a continuing business basis, ie excluding the impact of Home Appliances which is now classified as a business held for sale (discontinued operation), improved by 2.4% to \$9.5 million^{1,2} (1H 2017 \$9.3 million^{1,2}).

<u>Underlying results from Continuing Operations</u>	1H 2018 (\$ million)	1H 2017 (\$ million)	Change (%)
Sales revenue	106.1	114.5	(7.4)
Underlying EBIT ^{1,2}	11.2	11.8	(4.7)
Underlying profit before tax ^{1,2}	9.5	9.3	2.4
Underlying profit after tax ^{1,2}	6.2	6.7	(6.5)
Underlying EPS (cps) ^{1,2}	6.0	6.5	(7.1)

<u>Statutory results</u>	1H 2018 (\$ million)	1H 2017 (\$ million)	Change (%)
Statutory profit / (loss) before tax	3.8	(10.0)	NM
Statutory profit / (loss) after tax	0.1	(11.8)	NM
Net Debt	30.4	40.9	(25.6)

Category performance

For the first time McPherson's has separately reported its revenue from owned brands in three categories: skincare, haircare and bodycare; essential beauty; and household essentials and other brands. Agency and private label brands have also been separately reported.

During the period, McPherson's saw substantial growth in **skincare, haircare and bodycare brands**, with revenue increasing 24%. This was driven primarily by strong growth in A'kin and Dr. LeWinn's. Both brands generated increased demand from domestic and export channels, particularly into China and the United Kingdom. A'kin, the fastest growing brand, achieved a significant milestone by entering the top ten brands in natural skincare and haircare in the Australian Pharmacy channel for the first time. A'kin is now ranked 7th, within this channel with a moving annual total growth rate of 17%.

Within the **essential beauty** category, Manicare performed strongly due to fashion-led innovations such as Glam by Manicare, a broadening of the product range and a targeted approach to younger consumers, while the group saw steady sales in its Swisspers brand. Lady Jayne experienced an expected, temporary drop in sales due the soft changeover in the new contemporary and premium packaging. Essential beauty revenue was \$30.1 million compared with \$30.5 million in 1H 2017.

The Company is focussed on maintaining market leadership in its Multix brand through innovation and developing strategic customer relationships. Through the period Multix was impacted by a continued and predicated move to private label products which contributed to a drop in revenue in the **household essentials and other brands** category (down 12%). McPherson's recently launched a new Multix "Greener" range to appeal to environmentally conscious consumers and differentiate its product from competitors. This range is currently being rolled out across major grocery retailers with strong early interest.

¹ Underlying amounts exclude the following significant non-recurring items before tax:

1H 2018: \$6.4m impairment of goodwill related to Home Appliances and \$0.8m restructuring costs.

1H 2017: \$19.8m impairment of intangible assets; \$0.2m profit recognised from the divestment of Singapore's Impulse Merchandising operation; \$0.8m restructuring costs and \$0.7m bond buyback costs.

² Continuing operations results exclude the significant non-recurring items outlined above and the following items before tax:

1H 2018: \$1.5m Home Appliances trading profit.

1H 2017: \$1.7m Home Appliances trading profit.

Agency brands saw a decline in revenue of 4.1%, mainly due to the previously announced withdrawal of Dolce & Gabbana from the Coty Distribution Agreement. Anticipating the loss of this account, McPherson's has signed agency agreements with Karen Murrell and Dr. Wolff and more recently The Bondi Perfume Company.

On 14 December, 2017, the company announced the divestment of the **Home Appliance business** to Glen Dimplex. The transaction is on track to be completed on 28 February 2018. Approximately \$28 million in net proceeds will be generated from the divestment and will be applied to buy back the outstanding \$25 million in Corporate Bonds, further reducing the company's net debt and borrowing costs.

Strategy Update

McPherson's has a three-year strategy to grow in Health, Wellness and Beauty. This strategy has four pillars:

1. Focus the business on the core six owned brands: five growth brands (Dr. LeWinn's, A'kin, Lady Jayne, Manicare & Swisspers) and maintain market leadership in Multix;
2. Explore new product growth platforms;
3. Move to strategic customer and supplier partnerships; and
4. Drive value from our geographic footprint.

Through the period, McPherson's implemented a number of initiatives to support its five growth brands and maintain market leadership in Multix. These included roll-out of new packaging, investment in research and development to support innovations in core brands; investment in marketing initiatives, brand ambassadors, digital support with "above the line" communications. These types of activities resulted in A'kin winning the 'Natural Beauty Awards' in the Conditioner category.

The Company continues to explore new product growth platforms in Health, Wellness and Beauty markets with a view to balancing the portfolio from Beauty to Health, Wellness and Beauty. McPherson's has the capability, capacity and track record of growing acquired brands such as A'kin and Dr. LeWinn's with significant infrastructure and market position to attract quality brands to its business. McPherson's has established a formal relationship with Monash University to accelerate its research and development agenda, led by Dr Mary Pearce, our Research and Development Director.

The approach to more strategic customer partnerships is already yielding benefits with increased customer engagement, incremental space and ranging, and increased participation in value propositions such as exclusive offers. The Company has now formalised a regular schedule of high level meetings with its key customers and suppliers, supporting better engagement with these parties.

McPherson's continues to expand its geographic footprint. Through the period, the Company expanded its distribution relationships into Malaysia, India, Korea and Taiwan. This builds on its existing presence in the South East Asian markets, while also developing new relationships in the North Asia region. The Company also saw an increase in partnerships in China, a key focus and growth market for the business.

Cash flow, balance sheet and FX hedging

Strong operating cash flow resulted in an underlying cash conversion of 94%. Consequently, net debt reduced by 26% from \$40.9m at 31 December 2016 to \$30.4m at 31 December 2017. The company's gearing ratio (net debt/total funds employed) has reduced from 30.4% to 25.9% over the same period.

The company's foreign exchange hedging policy, namely the utilisation of forward exchange contracts and options to hedge estimated USD purchases for the next 12 months, is unchanged. The growth in Australian sourced skincare product and the divestment of Home Appliances will result in a reduction in the proportion of annual USD denominated purchases from over 50% to 41%.

Outlook

In the second half of the financial year McPherson's will be focussed on:

- Continuing to invest in our "big six" core brand performance;
- Improving shelf presence in core brands with an investment in merchandising and permanent real estate across our key pharmacy and grocery customers;
- Driving further efficiencies in our supply chain and distribution facilities;
- Further building-out our capabilities in research and development and consumer and business intelligence;
- Focusing on reshaping our customer investment strategies for mutual growth;
- Driving the export business model growth in international sales through a focus on China and Europe; and
- Diverting capital to investments that will enhance our branded footprint and utilise existing capacity and operational strengths.

Commenting on the outlook, Managing Director Mr. Laurie McAllister said: "McPherson's is in an excellent position to pursue its strategy to grow in health, wellness and beauty where we are positioned well within higher growth areas of the market, such as skincare. Our leadership in our core brands continues to serve us well and we are also seeing success in export channels.

"For the full 2018 financial year, subject to continuation of current trading conditions, we expect to deliver an improvement in underlying profit before tax from continuing operations, excluding the Home Appliances business."

For further information please contact:

Cannings Strategic Communications
Susie Reinhardt
02 8284 9990
sreinhardt@cannings.net.au

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, Wellness & Beauty division markets and distributes beauty care, hair care, skin care and fragrance product ranges, 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 Appliances division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers.

McPherson's manages some significant brands for agency partners such as 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.