



22 August 2018

McPherson's Limited (ASX: MCP)

Manager, Company Announcements
ASX Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir

ASX / Media Release and Webcast of FY18 Results Presentation

Attached is the ASX / Media Release in relation to the results for the year ended 30 June 2018.

Today at 11am Mr Laurie McAllister (Managing Director) and Mr Paul Witheridge (Chief Financial Officer) will be hosting a webcast of McPherson's Limited FY18 results presentation.

The presentation will be made available via the ASX Company Announcements platform and the Investor Centre, Announcements page of our corporate website.

To register and view the webcast, go to <https://webcast.openbriefing.com/4695/>.

Participants will need to register to access the webcast, which will be activated 15 minutes prior to the start of the presentation. An archive of the event will also be placed on the Investor Centre, Announcements page of our corporate website after the event.

For any queries, please contact:
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Yours faithfully,

Philip Bennett
Company Secretary

Attached

ASX/Media Release

(ASX: MCP)

22 August 2018

McPherson's 2018 Results

(Underlying PBT of \$19.0m¹; Statutory PBT \$10.9m)

Underlying PBT growth of 17% and strong balance sheet has McPherson's well placed for future growth in Health, Wellness and Beauty

- Underlying profit before tax (PBT) up 17%, from \$16.2m to \$19.0m
- \$5.2 million statutory profit after tax (\$9.1m loss in FY17)
- 73% reduction in net debt over the last 12 months from \$36.4m to \$9.8m
- 13.1%¹ increase in underlying earnings per share
- 6% increase in sales from six core brands
- Geographic footprint further expanded and New Zealand operation returned to profitability
- Focus on owned skin care brands resulted in 42% increase in sales
- Strong balance sheet position to facilitate investments in the existing portfolio as well as leveraging capabilities

McPherson's Limited ("McPherson's" or "the Group") today announced final FY2018 results, which are consistent with the preliminary results released to the ASX on 31 July 2018. Underlying profit before tax for the year to 30 June 2018 was \$19.0 million¹ (2017: \$16.2 million¹), excluding the underlying result of its Home Appliances Division, and the statutory profit before tax was \$10.9 million (2017: \$4.7 million loss).

Total sales revenue from continuing operations decreased by 0.3% from \$211.2 million to \$210.4 million. Excluding Fine Fragrances, following the termination of the Coty agency agreement, total sales revenue from continuing operations increased by 3.6% from \$189.4 million to \$196.2 million. Following the 7% decline in 1H18 sales from continuing operations when compared to 1H17 sales, 2H18 sales increased by 7% in comparison with 2H17 largely due to 12% growth in sales of the company's owned brands: Dr. LeWinn's, A'kin, Multix, Swisspers and Lady Jayne. The majority of these brands are market leaders in their category.

Directors have declared a final dividend of 2.5 cents per share (cps) fully franked (2017: 2.0 cps fully franked), payable on 19 October 2018 to shareholders on the register at 2 October 2018. The dividend reinvestment plan remains in place. Total dividends for the year will be 8.5 cents per share fully franked (2017: 8.0 cps fully franked), representing a payout ratio of 68 per cent.

<u>Underlying results from Continuing Operations</u>	2018 (\$ million)	2017² (\$ million)	Change (%)
Sales revenue	210.4	211.2	(0.3)
Underlying EBIT ¹	21.6	20.7	4.2
Underlying profit before tax ¹	19.0	16.2	17.3
Underlying profit after tax ¹	12.9	11.4	13.7
Underlying earnings per share (cps) ¹	12.4	11.0	13.1
Net Debt	9.8	36.4	(73.0)

¹ Underlying amounts from continuing operations exclude the following significant non-recurring items and discontinued operations before tax:

- FY2018: Items associated with the discontinued operation, Home Appliances \$6.2m expense (primarily \$6.4m impairment of goodwill), \$0.9m bond buyback costs, \$0.5m redundancies due to restructuring in continuing operations and \$0.5m hedge ineffectiveness of interest rate swaps.
- FY2017: Items associated with the discontinued operation, Home Appliances \$8.7m expense (primarily \$12.0m impairment of intangible assets), \$9.6m impairment of intangible assets in continuing operations; \$0.2m profit recognised from the divestment of Impulse Merchandising operation in Singapore; \$1.6m restructuring costs and \$1.3m bond buyback costs.

² The FY2017 underlying amounts shown for EBIT, profit before tax, profit after tax and EPS outcomes have each been amended from those disclosed last year so as to exclude \$3.3m of Home Appliances underlying PBT, given this aspect of the Company's operations is not continuing.

<u>Statutory results</u>	2018 (\$ million)	2017 (\$ million)	Change (%)
Statutory profit / (loss) before tax	10.9	(4.7)	Large
Statutory profit / (loss) after tax	5.2	(9.1)	Large
Statutory earnings / (losses) per share (cps)	5.0	(8.8)	Large
Final dividend (cents fully franked)	2.5	2.0	25.0
Full year dividend (cents fully franked)	8.5	8.0	6.3

Category performance

During the 2018 financial year, McPherson's generated substantial growth in **skincare, haircare and bodycare brands**, with revenue increasing 41% over the full year to \$23.1 million, and growing 56% in 2H18 in comparison with 2H17. This was driven by strong growth in both A'kin and Dr.LeWinn's, with both brands generating increased demand from domestic and export channels, particularly into China and the United Kingdom. A'kin, the fastest growing brand, won best in category at the "Nature & Health - Natural Beauty Awards 2018" for its Avocado & Calendula Conditioner.

Within the **essential beauty** category the Swisspers brand, our third largest revenue generator, recorded growth of 6% in FY18 following a successful packaging refresh, supported by new product development. The Manicare and Lady Jayne brands had a steady sales outcome in comparison with last year. Essential beauty grew by 2% in FY18 to \$57.5 million, with 5% growth achieved in 2H18 in comparison with 2H17.

The Group is committed to be a leader in research and development across core brands and has a formal relationship with Monash University to focus on our sustainability strategy. To this point, the recently launched Multix "Greener" range is achieving strong growth in the rapidly expanding "sustainables" category, appealing to environmentally conscious consumers as a result of this R&D relationship. The **household essentials and other brands** category is dominated by Multix and while sales of \$52.0 million were in-line with FY17, 2H18 growth of 11% was achieved over 2H17. The recently released new television campaign is expected to drive brand awareness and further strengthen Multix brand positioning in FY19.

The termination of the Coty agency agreement, effective 31 January 2018, led to a 14% decline in revenue from **Agency brands** to \$40.6 million. Key agency relationships now comprise Trilogy, Eylure, Karen Murrell and Dr. Wolff.

The divestment of the Home Appliances business was completed on 28 February 2018 with approximately \$29 million in net consideration applied to reduce debt including buying back the remaining \$25 million in Corporate Bonds, and further reducing the company's borrowing costs. A non-cash, non-recurring impairment of \$6.4 million in goodwill related to Home Appliances is reflected in the FY18 statutory results.

Strategy Update

McPherson's Managing Director, Laurie McAllister said: "The strong results are the outcome of our dedicated focus on delivering on our objectives for the year. At the start of the financial year, we set out to:

- Return the Home Appliance business to growth and divest
- Accelerate performance in our core six owned brands through renewed and consumer led visual identity, packaging and new product innovation
- Redesign major customer trading terms for mutual growth via joint business plans
- Execute supply chain optimisation initiatives
- Embrace and step change the export business model

- Return New Zealand operations to earnings growth
- Establish a leadership team structure with the talent and capabilities fit for the future growth

“We have achieved all of these objectives. Aside from the strong financial results, an important outcome of these achievements has been the significant reduction in risk within our business. Gearing has been reduced by 73%, we have reduced our reliance on revenue from agency brands and we now have better trading terms with our customers and suppliers.”

The Group continues to explore new product growth platforms in Health, Wellness and Beauty markets with a view to balancing the portfolio from predominately 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.

The approach to more strategic customer partnerships is already yielding benefits with increased customer engagement, incremental space and ranging, with 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 that evolves McPherson's from transactional to strategic partnerships.

Since June 2017, we have seen maintained our universe of stores at 8,500 across all channels and increased our incremental distribution points by 45,000 driven by ranging of new SKU's. We are also working with new market entrants, such as Amazon and other e-commerce platforms to distribute our own brand products, supporting diversification of our customer base.

McPherson's continues to expand its geographic footprint. Through the period, the Group established distribution relationships in Japan, 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 Singapore business achieved its major targets through a combination of local investment in core owned brands and through growth in exports.

The Group also saw an increase in partnerships in China, a key focus and growth market for the business. China business growth is a result of A'kin and Dr. LeWinn's being distributed on leading ecommerce platforms in the market. The turnaround in profitability of our New Zealand business was achieved through careful management of operating costs and selective investment in core brands.

Cash flow, balance sheet and FX hedging

The underlying cash conversion rate of 82% was impacted by relatively high sales in May and June 2018 and a build in inventory levels to support export sales growth. Net debt reduced by 73% from \$36.4m at 30 June 2017 to \$9.8m at 30 June 2018. The Group's gearing ratio (net debt/total funds employed) has reduced from 29.2% to 9.9% over the same period.

The Group'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 products and the divestment of Home Appliances has resulted in a reduction in the proportion of USD denominated purchases from over 53% a year ago, to 48%.

Outlook

Commenting on the outlook, Mr McAllister said: “The success of the last year has been achieved through the execution of the Group's strategy to invest in and deliver growth in its six core owned brands, improving shelf presence, establishing strategic customer relationships, driving further efficiencies with supplier partnerships and diverting capital to investments that have enhanced our branded footprint across multiple geographies.



“McPherson’s has now successfully de-risked the business and we are wholly focussed to grow in Health, Wellness and Beauty markets on a global scale.

“Given our strong position, the plan for the 2019 financial year includes an increased level of capital invested to support continued growth in our core owned brands. We also see an opportunity to increase investment in personnel, innovation, research and development to further support our existing portfolio and capabilities. These initiatives will be closely managed in tandem with the ongoing performance of the business throughout the financial year.” he said.

For further information please contact:

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About McPherson’s Limited

McPherson's, established in 1860, is a leading supplier of health, beauty, household and personal care products in Australasia, with operations in Australia, New Zealand and Asia. McPherson's 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.

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, Multix, Moosehead, and Maseur.

For further information on McPherson's business and its strategy and to view our most recent corporation video please refer to the company's website <http://www.mcphersons.com.au>