MOELIS & COMPANY

McPherson's Ltd

Buy

Growth at a great yield

Consumer Durables & Apparel / Housewares & Specialties **27 September 2016**

Company Update

Ticker	MCP
Stock Price	$1.080
Target Price	$1.350
Forecast Capital Return	25.0%
Forecast Dividend Yield	8.4%
Estimated Total Return - 12 Mth Forward	33.4%

Company market data	
Market Cap.	$111.6m
Free Float (%)	91.9
Enterprise Value	$161.5m
52 Week Range	$0.64 - $1.24
Shares Out.	103.3m
Avg. Daily Value	$0.2m

Estimates changes	2016a	2017e	2018e	2019e
Core NPAT	11.1	14.3	16.5	16.8
Core EPS dil. (¢)	11.2	13.9	15.8	15.8
DPS (¢)	8.0	9.0	10.1	11.1

All figures are in AUD unless otherwise specified.

Share price performance

McPherson's Ltd vs. AS51 (rebased index)

Analyst

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Event

We have initiated coverage of McPherson's Ltd (MCP) with a **BUY rating and 12 month target price of $1.35.** Trading at a FY17 PE of 8x (~50% discount to the XSI) with an 8% fully franked dividend yield, we view MCP as a value trade.

Investment View

MCP is a company that has undergone significant transformation over the past few years. We view FY17 as the first full year post this transformation with a renewed focus on reducing its exposure to the grocery channel, margin expansion and entering international markets.

Our BUY thesis is predicated on the following:

- **EBITDA margin expansion** in FY17 to 10% due to; gross profit margin expansion in the Health & Beauty division from sourcing improvements and the full year effect of the measures MCP took during FY16 to offset the negative impact of a decrease in AUD i.e. price increases, sourcing cost reductions.

- **Focus on Health & Beauty division and new CEO could mean divestments are on the agenda:** There is a clear strategy to focus on growing MCP's owned Health & Beauty brands both domestically and internationally. MCP has researched and identified ~7 Akin SKUs and ~5 Dr LeWinn's "hero" SKUs to appeal to both the Australian and Chinese consumer; launched a WeChat campaign to introduce the products and will partner with key Australian retailers to reach the majority of the Daigou. We note that we have not estimated sales from new international markets. The incoming CEO, Laurie McAllister, was managing director of Sanofi Australia & New Zealand and has extensive experience in the consumer healthcare space. Given the focus on Health & Beauty, MCP may decide to divest the Household Consumables division. In our view, this would lead to improved earnings quality which should, in turn, drive a multiple re-rate.

- **We estimate a FY17 fully franked DPS of 9cps** which represents a 65% payout ratio and 63% of estimated free cash flow.

Y/E Jun 30	2016a	2017e	2018e	2019e
EBITDA	26.7	28.4	31.2	32.3
EV/EBITDA	6.0x	5.7x	5.2x	5.0x
Core NPAT	11.1	14.3	16.5	16.8
Core EPS (Diluted) (¢)	11.2	13.9	15.8	15.8
P/E	9.6x	7.8x	6.9x	6.8x
EPS growth	(10.1%)	23.7%	13.4%	0.6%
DPS (¢)	8.0	9.0	10.1	11.1
Yield	7.4%	8.4%	9.3%	10.3%
DPS growth	0.0%	12.8%	11.6%	10.5%
Dividend Payout Ratio	71.3%	65.0%	64.0%	70.3%

All figures are in AUD.

Initiate on a BUY with a 12 month target price of $1.35

*We issue a **BUY rating and a 12 month target price of $1.35,** which is the future value (less dividends to be received) of our DCF based current valuation.*

DCF based valuation

We issue a BUY rating and a 12 month target price of $1.35, an estimated 31% total return, comprising an 8% fully franked dividend yield and 23% capital return. Our 12 month target price is derived from the future value of our fundamental valuation, less dividends to be received between now and the target date. Our DCF based current valuation is shown in the table below. We use a WACC of 12.5%.

Figure 1: Moelis' current valuation of MCP

	$m	Per share ($)
Enterprise Value	182	1.76
Net Debt (Cash)	(50)	(0.48)
Equity Valuation	132	1.28

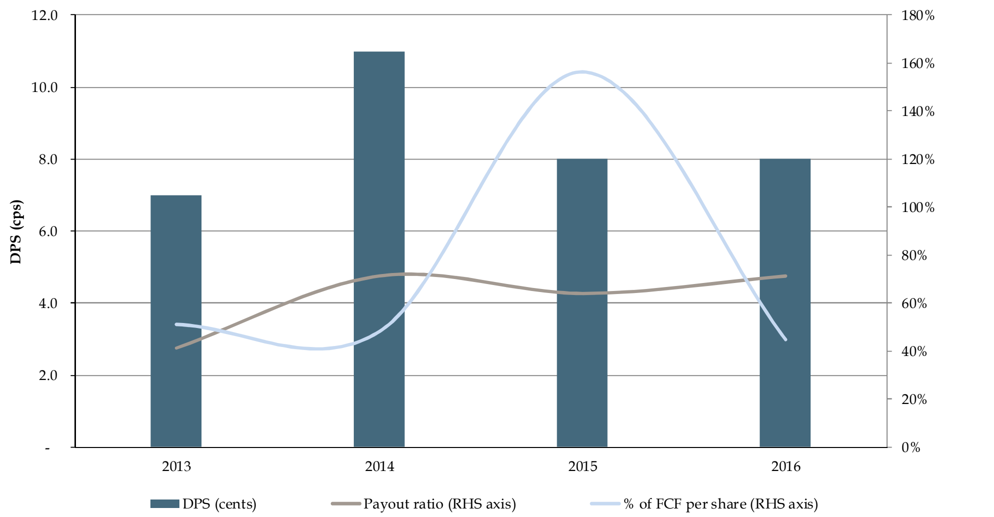
Source: Moelis analysis

Estimating an 8% fully franked FY17 dividend yield

We estimate a FY17 fully franked DPS of 9cps, which represents a 65% payout ratio and 63% of estimated free cash flow. We note that the FY16 DPS of 8cps represented ~71% payout ratio when you exclude the Homewares division that was fully divested during FY16.

It is our view that this is sustainable and 8cps represents a floor in the dividend. The figure below shows MCP's historical dividend, underlying EPS payout ratio and the dividend as a percentage of free cash flow per share.

Figure 2: MCP's historical dividends



Source: Company, Moelis Analysis

Currently trading on a below market multiple and well below peers

Given MCP's focus on health and beauty and overseas expansion (particularly in China), BWX and TIL are the most comparable companies to MCP. We think that MCP should trade on a discount to these companies given the home appliances and consumables divisions, the early stage of the health and beauty overseas expansion and lower margins. If the natural skincare market continues to grow and the brands gain traction overseas, MCP could re-rate to more of a market multiple.

Figure 3: Comparable companies for MCP's divisions

Company	Ticker	Country	Price	Market Cap	EV	P/E		EV/EBITDA	
			A$	A$m	A$m	FY17	FY18	FY17	FY18
McPherson's (Moelis estimates)	**MCP**	**Australia**	**1.08**	**112**	**161**	**7.8x**	**6.9x**	**5.7x**	**5.2x**
ASX Small Cap Industrials	**XSI**					**15.9x**	**14.5x**	**10.2x**	**9.4x**
Chinese consumer stories									
Bellamy's Australia	BAL	Australia	12.99	1,256	1,223	20.4x	15.4x	14.2x	10.9x
Blackmores	BKL	Australia	117.72	2,028	2,048	19.5x	17.1x	13.0x	11.5x
Bega Cheese	BGA	Australia	6.61	1,009	1,062	27.2x	22.7x	13.6x	11.9x
A2 Milk Co Ltd	A2M	New Zealand	1.78	1,274	1,272	22.5x	17.0x	14.2x	11.1x
Freedom Foods Group	FNP	Australia	4.63	841	873	49.3x	32.8x	24.3x	16.6x
					Average	**27.8x**	**21.0x**	**15.8x**	**12.4x**
Skin care companies									
Bwx	BWX	Australia	4.95	453	458	26.1x	21.1x	16.9x	13.8x
Trilogy International	TIL	New Zealand	3.90	296	327	17.8x	15.2x	14.7x	12.8x
Estee Lauder Companies	EL	United States	115.65	32,287	33,161	25.5x	22.7x	14.4x	13.1x
Coty-Cl	COTY	United States	30.69	7,868	11,738	21.9x	19.0x	8.5x	7.2x
L'Oreal	OR	France	248.97	94,794	86,267	24.5x	23.0x	14.6x	13.8x
Procter & Gamble	PG	United States	115.14	234,265	254,167	22.6x	20.9x	14.6x	13.9x
					Average	**23.1x**	**20.3x**	**14.0x**	**12.4x**
Home appliances									
Harvey Norman Holdings	HVN	Australia	5.19	5,774	6,286	15.8x	15.2x	9.9x	9.5x
Jb Hi-Fi	JBH	Australia	29.31	3,349	3,407	17.3x	15.4x	10.8x	9.3x
Shriro Holdings Ltd	SHM	Australia	1.18	112	124	7.8x	7.3x	5.0x	4.7x
					Average	**13.6x**	**12.6x**	**8.6x**	**7.8x**
Household consumables									
Wesfarmers	WES	Australia	44.04	49,595	56,287	19.0x	17.4x	10.5x	9.7x
Woolworths	WOW	Australia	23.35	29,859	33,584	19.0x	17.7x	9.5x	8.9x
Metcash	MTS	Australia	2.08	2,014	2,311	11.3x	10.5x	6.9x	6.4x
					Average	**16.4x**	**15.2x**	**8.9x**	**8.3x**

Source: Company data, IRESS, Moelis & Company research estimates

Moelis' financial estimates

P&L – FY17: the first full year post transformation

Figure 4: MCP P&L - Moelis summary

A$m		1H16A	2H16A	FY16A	1H17E	2H17E	FY17E
Health and Beauty		79.5	65.0	144.5	59.9	51.6	111.5
Home Appliances		38.7	36.3	75.0	34.5	36.3	70.8
Household Consumables		42.7	35.1	77.8	60.0	49.2	109.1
Impulse Merchandising		7.4	7.9	15.2			
Total Sales		168.3	144.3	312.6	154.4	137.1	291.4
% chg		-8.9%	-12.2%	-10.5%	-8.3%	-5.0%	-6.8%
Opex		(152.5)	(133.4)	(285.9)	(139.9)	(123.1)	(263.1)
EBITDA	25.2	15.8	10.9	26.7	14.4	14.0	28.4
EBITDA Margin		9.4%	7.6%	8.5%	9.3%	10.2%	9.7%
D&A		(1.3)	(1.5)	(2.8)	(1.5)	(1.5)	(3.1)
EBIT		14.5	9.4	23.9	12.9	12.4	25.3
EBIT Margin		8.6%	6.5%	7.6%	8.4%	9.1%	8.7%
Net Interest Expense		(3.6)	(3.2)	(6.8)	(2.7)	(2.9)	(5.7)
PBT		10.9	6.2	17.1	10.2	9.5	19.7
Tax Expense		(4.0)	(2.0)	(6.0)	(2.7)	(2.6)	(5.3)
Underlying NPAT		6.9	4.2	11.1	7.4	6.9	14.3
% chg		-20.1%	22.9%	-7.8%	7.6%	64.8%	29.3%

Source: Company, Moelis Analysis

FY17 revenue impacted by re-segmentation, distribution contracts & Masters:

We note that the FY16 P&L above is adjusted for the full divestment of the Homewares division so our FY17 estimates are on a like for like basis.

We estimate that **Health & Beauty** revenue will decline in FY17 by ~23% due to:

1. Approximately $25m of revenue from the Swisspers, Moosehead and Maseur brands being moved to the Household Consumables division;
2. The exiting of some private label contracts; and
3. MCP not retaining the distribution contract for Dolce & Gabbana fragrances post October 31 2016 due to the Procter & Gamble and Coty merger (we estimate that this contract represents ~$5m of revenue per year).

We understand that MCP will benefit from the full year effect of price increases introduced part way through FY16.

In the **Home Appliances** division, we estimate that revenue will decline by ~5.5% in FY17 due to the impact of Masters (which we estimate to be ~10% of revenue). We note that MCP currently has a tender with the Good Guys for a range of in-built ovens, increasing the division's range of products and number of retailers.

The **Household Consumables** division will benefit from the re-segmentation of the Swisspers, Moosehead and Maseur brands, ~$25m in revenue per year. MCP has decided to combine these brands with the Multix brand to leverage the company's expertise in the grocery channel.

MCP closed the **Impulse Merchandising** business following the decision by a major Australian grocery retailer to cease its impulse merchandising program. This has led to one-off closure costs but will release ~$2m of working capital and should marginally improve overall company earnings in FY17.

Margins should expand in FY17:

We estimate MCP's EBITDA margins will expand in FY17 to 9.7% (a 120bp expansion based on adjusted EBITDA accounting for the divestment of the Homewares division). This estimate is based on:

1. A gross profit margin expansion in the **Health & Beauty** division from ~50% to ~55%. MCP has said that over the next 12-18 months sourcing improvements should lead to Dr LeWinn's gross profit margin increases from 45% to 60%; Akin from 45% to 60% and Manicare and Lady Jayne from 50% to 60%.
2. Margins remaining flat in the **Home Appliances** division; and
3. The full year effect of the measures MCP took during FY16 to **offset the negative impact of a decrease in AUD** i.e. restructuring, operational initiatives and commodity price decreases.

MCP's policy is to hedge 8 months forward using 50% options and 50% forward contracts, although, for the grocery channel, MCP looks to hedge 12 months out. For FY17, 60% of COGS are covered at ~71.5c, however, if the currency stays at current levels, exercising the options contracts could result in MCP achieving an effective rate of ~73c.

Figure 5: MCP Balance sheet and key cash flow metrics

A$m	FY15A	FY16A	FY17E
Cash	11.3	16.5	16.5
Receivables	55.0	44.8	48.1
Inventories	57.8	59.8	53.7
Other CA	47.0	0.7	0.7
Total CA	171.1	121.9	119.0
PP&E	5.5	5.8	6.4
Intangibles	89.4	115.1	115.4
Other NCA	17.0	6.6	6.6
Total NCA	111.9	127.6	128.4
Payables	60.4	48.8	46.4
Short term debt	0.4	17.5	17.5
Other CL	24.2	12.9	12.9
Total CL	85.1	79.3	76.8
Debt	88.1	48.9	42.2
Other NCL	11.1	16.8	16.8
Total NCL	99.1	65.7	59.0
Total Equity	98.7	104.5	111.6
Net debt	77.2	49.9	43.2
Net debt / EBITDA	3.1x	1.9x	1.5x
Operating cash flow	7.0	21.4	17.8
Capex	(2.0)	(3.0)	(2.9)
Free cash flow	5.0	18.5	14.9

Source: Company, Moelis Analysis

We estimate MCP will continue to deleverage, estimating ~$43m of net debt by the end of FY17. This should reduce MCP's net interest expense by ~17%. We also note that MCP may buy back more corporate bonds and utilize its working capital facility that has a significantly lower funding cost.

Key issues raised at the FY16 result:

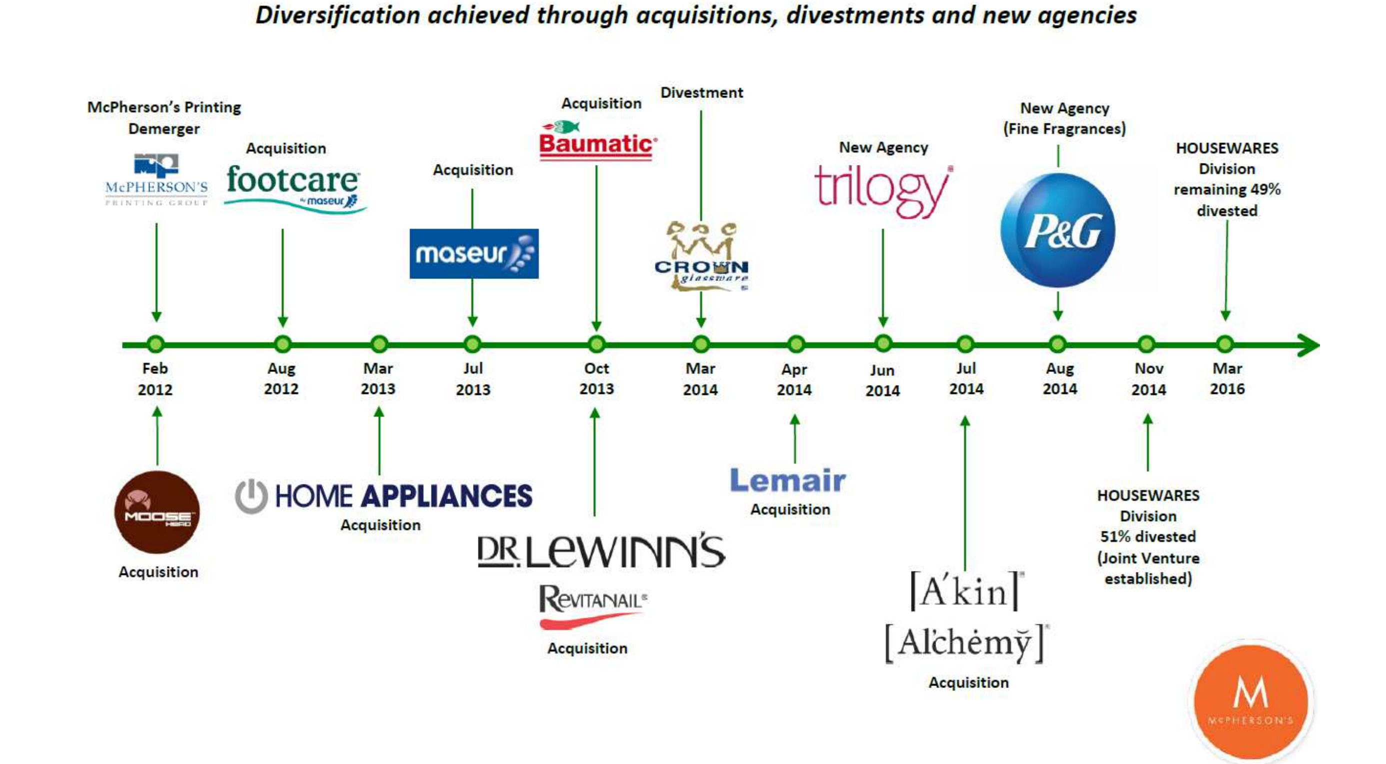
1. Past divestments and reduced grocery exposure boosts margins

Before 2012, MCP's performance largely depended on:

1. The grocery channel where margins were constrained; and
2. Its printing business which served a declining market.

Since then, MCP has demerged the printing business and decreased its exposure to the grocery channel. In addition, the proportion of MCP's purchases in US dollars fell from 85% in FY14 to ~65% and management expects this to continue to decline.

Figure 6: Timeline of MCP's acquisitions and divestments

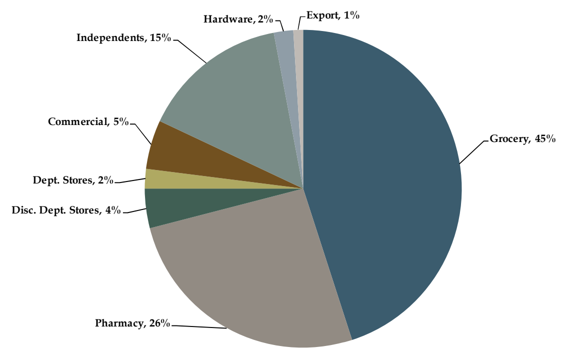


Source: Company report

MCP's latest divestment made in March 2016 was the remaining 49% of the Housewares division. As a result of the divestment, MCP was able to apply $10m of the proceeds to buy back bonds and ~$10m to reduce working capital debt.

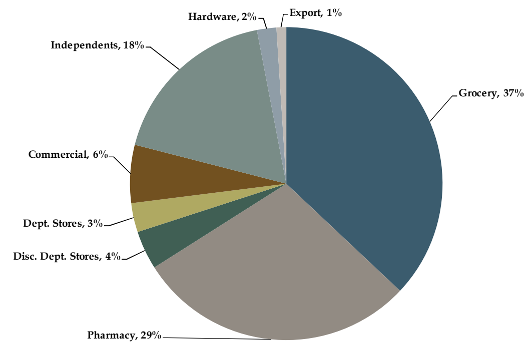
MCP has reduced its exposure to the grocery channel by growing its Health & Beauty division and increased its involvement in home appliances. MCP announced in July that it has closed the Impulse Merchandising business following the decision by a major Australian grocery retailer to cease its impulse merchandising program. This led to a one-off closure cost in FY16 but will release ~$2m of working capital in FY17 and marginally improve overall company earnings in FY17.

Figure 7: FY15 revenue by channel



Source: Company report

Figure 8: FY16 revenue by channel



Source: Company report

The result of divestments and reducing exposure to the grocery market has boosted MCP's margins. In the past, key customers have been reluctant to accept price increases from MCP to compensate for the lower AUD/USD exchange rate and higher commodity prices. MCP has now taken the view that where customers do not accept price increase and margins are inadequate, MCP will exit the contracts i.e. some private label and the impulse merchandising division.

2. Focus on growth for owned beauty and key agency brands

During FY16, MCP consolidated its health and beauty division, deleting 12 SKUs and providing scope to reduce distribution, marketing and selling expenses. The figure below details our estimates of margin expansion over the next 12-18 months and growth strategy.

Figure 9: Owned vs. agency brands - key points

BRAND	OWNED OR AGENCY?	SEGMENT	ASP	FY16A revenue estimate	CURRENT CONTRIBUTION MARGIN	TARGET CONTRIBUTION MARGIN	GROWTH STRATEGY
Dr Lewinn's	Owned	"Cosmeceuticals" catering to 25-39 year olds.	$60+	$11m	45%+	60% in 12-18 months	1. More customised wall units 2. International expansion 3. E-commerce
Akin	Owned	Natural skincare	$20-30	$5m	45%	60% in 12-18 months	1. New packaging in Oct-16 2. Expanding to Chemist Warehouse 3. International expansion 4. E-commerce
Manicare and Lady Jayne	Owned	Beauty tools and hair accessories	Varies	$40m	55%+	60% in 12-18 months	1. New channels (expansion in grocery) 2. E-commerce
Trilogy	Agency	Natural skincare	$30+	$12.5m			
P&G	Agency	Perfumes	Varies	$22m			

Source: Company, Moelis Analysis

For **Dr LeWinn's** products, MCP is introducing new formulations, packaging (e.g. Eternal Youth range featured below with the diamond-like packaging), customised wall units in retailers and new retail channels in FY17. MCP is spending $2.5m (additional $1m) in advertising in FY17 to increase brand awareness and strengthen consumer engagement and has appointed actress, Anna Bamford as Dr LeWinn's brand ambassador.

Figure 10: Dr LeWinn's Eternal Youth - new packaging

Source: Company report

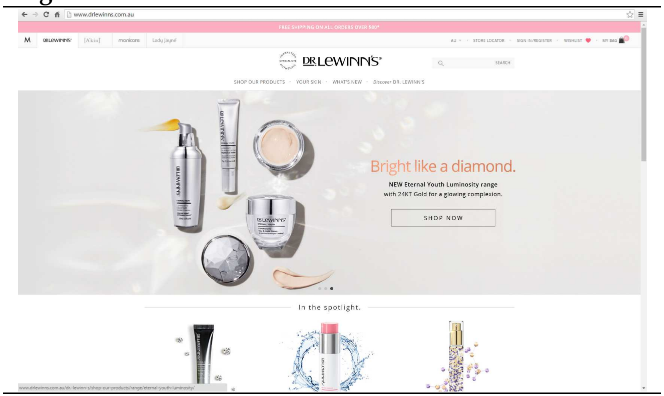
New packaging for **A'kin natural skincare and haircare** is being introduced in October 2016. At the same time, MCP is introducing new products aimed at appealing to both the Australian and Chinese consumer e.g. rosehip oil with vitamin C.

Figure 11: Akin - new packaging

Source: Company report

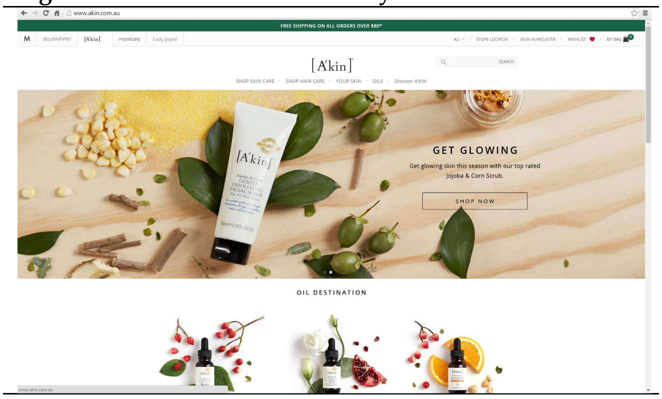
In addition to increasing the number of retailers selling the Health & Beauty brands, MCP has also developed an e-commerce channel. Each of MCP's owned brands are featured on a different tab of the website and orders can be fulfilled in MCP's "pick to light" distribution centre in Kingsgrove, Sydney which has spare capacity since MCP exited impulse merchandising.

Figure 12: MCP's website – Dr LeWinn's



Source: www.drlewinns.com.au

Figure 13: MCP's Health & Beauty website – Akin



Source: www.akin.com.au

MCP plans to grow sales in Manicare and Lady Jayne by channel expansion (increasing presence in the grocery channel), ecommerce and increased advertising, both digital and select cinema.

It is our understanding that MCP is in the final stages of renewing the agency partnership for **Trilogy** products for another 3 years (to the end of FY19). We have chosen to be conservative in our estimates and have assumed that TIL will take distribution in-house post FY19 given TIL's growth and MCP's focus on its owned brands. In addition, we estimate that the **P&G agency contract** is ~$22m per year but ~$5m of that is in relation to the D&G fragrances contract which will not continue post October 2016.

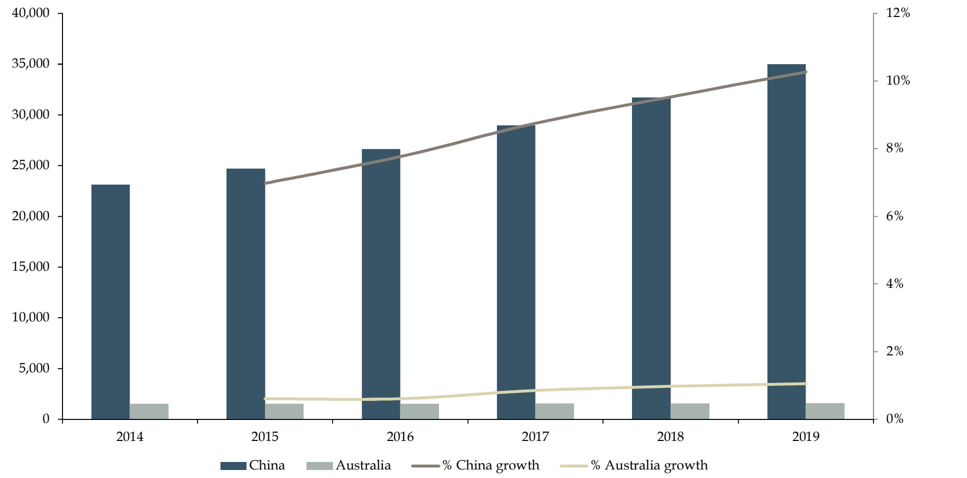
3. International expansion – MCP targeting the Chinese market

We estimate that ~$11m of revenue in the Health & Beauty division was from sales to Singapore and Hong Kong. Our understanding is that MCP will focus on exporting its products (particularly Akin and Dr LeWinn's) to other countries in FY17, with the focus on building its brand presence in China.

As evidenced by the level of grey market interest for BWX and TIL products, there is very high Chinese demand for natural Australian skincare products. Euromonitor International forecasts that the skincare market in China will grow, on average, ~9%p.a. over the next 5 years to US$35bn, becoming the source of over 70% of skincare's growth. We believe this demand is driven by:

a. Chinese consumers spending money on skincare at a younger age;
b. Chinese consumers favouring imported brands that have a reputation for good quality and natural ingredients; and
c. Shift to buying overseas products online from trusted Daigou sellers or the brands' flagship stores.

Figure 14: China skin care growth vs Australian skin care growth



Source: Euromonitor International and Moelis estimates

From our observations, MCP's Dr LeWinn's and Akin brands are not as well known in China as Sukin and Trilogy, therefore, its China strategy is to partner with Daigou sellers rather than going direct to consumer (although, that could be an additional avenue for growth in 2H17/FY18). MCP's approach to launching its products to the Chinese market has been:

a. To conduct extensive consumer research and identify ~7 Akin SKUs and ~5 Dr LeWinn's "hero" SKUs that have potential appeal to the Chinese consumer;
b. To launch a WeChat campaign to introduce the products;
c. To partner with key Australian retailers to reach the majority of the Daigou; and
d. To trial a pilot project supplying select exporters.

In our view, the main advantages of using the Daigou market are the increase in brand awareness and lower levels of regulation. By using Daigou sellers, MCP does not need to adhere to the recent Chinese regulations that require foreign manufactured products to be registered by May 2017. Having said this, if MCP decides to sell direct to the Chinese consumer via a flagship store on Tmall or JD.com, it will need to register its products. If the uptake of Dr LeWinn's and Akin brands in China is successful, it is foreseeable that MCP would want to sell directly to consumers and therefore will start the registration process.

In our FY17 estimates, we have revenue growth in MCP's owned brands increasing from 10% in 1H17 to 20% in 2H17, factoring in some success with its overseas expansion plans. While the majority of focus is on China growth, MCP also has expansion plans for New Zealand and Singapore and has appointed distributors in South Korea and the UK.

4. New CEO could divest the Household Consumables division

MCP announced at the FY16 result that Paul Maguire decided to retire from MCP with effect from 21 November 2016. The incoming CEO, Laurie McAllister, was managing director of Sanofi Australia & New Zealand and has extensive experience in the consumer healthcare space. We believe he has been appointed for his experience in managing Chinese demand for Sanofi's healthcare brands e.g. Nature's Own and Cenovis.

Given MCP's strategy to concentrate on growing its health and beauty brands and the background of Laurie McAllister, we believe MCP may divest the Household Consumables division. In our view, this would improve earnings quality which should, in turn, drive a multiple re-rate.

Appendix I – Board of Directors and Management

Graham Cubbin: Independent Non-Executive Director & Chairman

Mr Cubbin was appointed an Independent Non-Executive Director of McPherson's Limited on 28 September 2010 and was appointed Chairman of McPherson's Limited on 1 July 2015. Mr Cubbin was a senior executive with Consolidated Press Holdings Limited (CPH) from 1990 until September 2005, including CFO for 13 years. Prior to joining CPH, Mr Cubbin held senior finance positions with a number of major companies, including Capita Financial Group and Ford Motor Company. Mr Cubbin has over 20 years' experience as a Director and audit committee member of public companies in Australia and the United States. He is also a Director of Challenger Limited, STW Communications Group Limited, Bell Financial Group Limited and White Energy Company Limited.

Laurie McAllister: Incoming Managing Director

Laurie McAllister has held a range of senior executive positions in consumer goods marketing and general management in Australia, Europe and Asia. His experience encompasses sales, marketing, mergers & acquisitions, supply chain, logistics, R&D, innovation and new product development. He previous roles have included country management roles, chief marketing and commercial officer and director of marketing, new beverages and innovation at Coca-Cola. More recently, Mr McAllister was appointed managing director of Sanofi's business in Australia and New Zealand with over 1,000 employees and sales of $1.1bn.

Paul Maguire: Outgoing Managing Director

Mr Maguire was appointed Managing Director of McPherson's Limited on 1 November 2009 and will retire from MCP effective from 21 November 2016. Mr Maguire was Chief Executive of Multix Proprietary Limited from 2002, and following the combining of McPherson's two consumer products businesses, McPherson's Consumer Products and Multix, into a single entity in July 2009, Mr Maguire took the position of Chief Executive of the enlarged business. Before joining Multix (which was acquired by McPherson's in 2004), Mr Maguire worked in a number of management roles for SCA Hygiene Products Australasia. He has a Master of Business (Marketing) from Monash University and an Honours Science Degree from La Trobe University.

Amanda Lacaze: Independent Non-Executive Director

Ms Lacaze was appointed an Independent Non-Executive Director of McPherson's Limited on 22 September 2011. Ms Lacaze has an extensive executive career as a chief executive and as a marketing executive. She is currently CEO and MD of Lynas Corporation Ltd. Previously she has been CEO and MD of Commander Communications, Executive Chairman of Orion Telecommunications, and CEO of AOL|7. Prior to these roles Ms Lacaze was Managing Director of Marketing at Telstra, and held various business management roles at ICI (now Orica). Ms Lacaze's early experience was in consumer goods with Nestlé. She is also Non-Executive Director of ING Bank Australia Limited, Executive Director of Lynas Corporation and Director and member of Morgan Lacaze Consulting.

Jane McKellar: Independent Non-Executive Director

Ms McKellar was appointed an Independent Non-Executive Director of McPherson's Limited on 23 February 2015. Ms McKellar is an experienced international senior executive with extensive customer-focused, brand, marketing and digital experience across a number of high-profile, global brands. Ms McKellar commenced her career at Unilever in London and her subsequent roles have included global CEO of Stila Corporation, USA; Managing Director of Elizabeth Arden Australia; Founding CEO of Excite.com Asia Pacific; Director of Sales and Marketing for Microsoft (MSN); and Founding Director of Ninemsn. Ms McKellar has a Bachelor of Arts and a Master of Arts with Honours from the University of Aberdeen and is a MAICD. She is also Non-Executive Director of Terry White Group, Automotive Holdings Group and Seachange Technologies Pty Ltd.

Margaret Payn: Independent Non-Executive Director

Margaret Payn joined the board of McPhersons on 12 October 2015. She is a Chartered Accountant and trained with KPMG in London. Margaret has extensive experience in the financial services industry across Finance, Operations, Risk and a number of other business areas and functions. She is currently the CFO and COO for AMP Capital. Prior to her role at AMP Capital, Margaret worked in a number of senior roles at ANZ, Citigroup, Schroders, State Street, and Westpac.

Paul Witheridge: CFO and Joint Company Secretary

Mr Witheridge was appointed Chief Financial Officer and Joint Company Secretary of McPherson's Limited on 1 December 2011. In May 2010 Mr Witheridge was appointed the CFO of McPherson's Consumer Products Pty Ltd. Mr Witheridge is a Chartered Accountant and has a Commerce degree. Before joining McPherson's, Mr Witheridge held senior financial and company secretarial positions with a number of listed companies in the retail sector including Angus and Coote Limited and OPSM Limited. Prior to that Mr Witheridge spent six years within KPMG's Audit and Assurance Practice.

McPherson's Ltd (MCP)

Market Cap: $112m | Last Price: $1.080 | Target Price: $1.350 | **Buy**

Profit and Loss ($m)	2015a	2016a	2017e	2018e	2019e
Revenue	**349.1**	**312.6**	**291.4**	**312.7**	**324.2**
Growth	*(1.0%)*	*(10.5%)*	*(6.8%)*	*7.3%*	*3.7%*
EBITDA	**25.2**	**26.7**	**28.4**	**31.2**	**32.3**
Growth	*(14.6%)*	*6.0%*	*6.2%*	*9.9%*	*3.7%*
Dep'n & Amort	(2.7)	(2.8)	(3.1)	(3.3)	(3.6)
EBIT	**22.5**	**23.9**	**25.3**	**27.9**	**28.8**
Growth	*(15.3%)*	*6.0%*	*5.9%*	*10.1%*	*3.2%*
Net Interest Expense	(6.1)	(6.8)	(5.7)	(5.3)	(5.7)
Profit Before Tax	**16.4**	**17.1**	**19.7**	**22.6**	**23.1**
Tax	(4.4)	(6.0)	(5.3)	(6.1)	(6.2)
Tax Rate (%)	*26.8%*	*35.1%*	*27.0%*	*27.0%*	*27.0%*
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	**12.0**	**11.1**	**14.3**	**16.5**	**16.8**
Growth	*(15.7%)*	*(7.8%)*	*29.3%*	*14.9%*	*2.1%*
One-Off Items	(3.2)	(0.1)	0.0	0.0	0.0
NPAT (Reported)	**8.8**	**11.0**	**14.3**	**16.5**	**16.8**
EPS (Underlying) (¢)	**12.5**	**11.2**	**13.9**	**15.8**	**15.8**
Growth	*(19.0%)*	*(10.1%)*	*23.7%*	*13.4%*	*0.6%*

Balance Sheet ($m)	2015a	2016a	2017e	2018e	2019e
Cash	11.3	16.5	16.5	24.3	34.1
Inventory	57.8	59.8	53.7	58.0	60.1
Current Receivables	55.0	44.8	48.1	51.9	53.8
PPE	5.5	5.8	6.4	6.9	7.4
Intangibles	89.4	115.1	115.4	115.7	115.9
Other	63.9	7.3	7.3	7.3	7.3
Total Assets	**282.9**	**249.4**	**247.4**	**264.2**	**278.8**
Current Payables	60.4	48.8	46.4	50.1	51.9
ST Debt	0.4	17.5	17.5	17.5	17.5
LT Debt	88.1	48.9	42.2	49.2	54.6
Provisions	17.7	10.3	10.3	10.3	10.3
Other	17.6	19.5	19.5	19.5	19.5
Total Liabilities	**184.2**	**144.9**	**135.8**	**146.6**	**153.8**
Net Assets	**98.7**	**104.5**	**111.6**	**117.6**	**124.9**
Equity & Reserves	152.1	154.7	153.3	151.2	151.2
Retained Profits	(53.4)	(50.2)	(41.7)	(33.6)	(26.2)
Shareholders' Equity	**98.7**	**104.5**	**111.6**	**117.6**	**124.9**
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	**98.7**	**104.5**	**111.6**	**117.6**	**124.9**

Cashflow ($m)	2015a	2016a	2017e	2018e	2019e
EBITDA	25.2	26.7	28.4	31.2	32.3
Net Interest	(8.5)	(6.3)	(5.7)	(5.3)	(5.7)
Tax	(4.0)	(3.0)	(5.3)	(6.1)	(6.2)
△ in Working Capital	3.2	(3.5)	0.4	(4.4)	(2.2)
Other	(9.0)	7.5	0.0	0.0	0.0
Operating Cash Flow	**6.9**	**21.4**	**17.8**	**15.4**	**18.2**
Growth	*(70.0%)*	*208.3%*	*(16.8%)*	*(13.7%)*	*18.5%*
Capex	(2.0)	(3.0)	(2.9)	(3.1)	(3.3)
Acquisitions	(8.1)	(8.5)	0.0	0.0	0.0
Divestments	8.5	18.4	0.0	0.0	0.0
Other	(1.4)	(1.0)	(0.9)	(1.0)	(1.0)
Investing Cash Flow	**(3.0)**	**5.9**	**(3.9)**	**(4.1)**	**(4.3)**
Equity Raised	0.0	(6.0)	0.0	0.0	0.0
Dividends Paid	(8.4)	(6.9)	(5.9)	(8.4)	(9.5)
Net Borrowings	11.8	(12.9)	(6.7)	7.0	5.4
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**3.5**	**(25.9)**	**(12.6)**	**(1.4)**	**(4.1)**
FX / Non Cash Items	0.1	0.2	0.0	0.0	0.0
Change in Cash	**7.6**	**1.7**	**1.4**	**9.9**	**9.9**
Free Cash Flow	**5.0**	**18.5**	**14.9**	**12.2**	**15.0**

Valuation Summary	
Current Mkt Capitalisation	111.6
Shares on Issue	103.3
Last Price	1.080
12 Mth Target Price	**1.350**
Total Estimated 12 Mth Return	33.4%
12 Mth Fwd Capital Return	25.0%
12 Mth Fwd Dividend Yield	8.4%

Valuation Ratios	2015a	2016a	2017e	2018e	2019e
EPS (Underlying) (¢)	**12.5**	**11.2**	**13.9**	**15.8**	**15.8**
Growth	*(19.0%)*	*(10.1%)*	*23.7%*	*13.4%*	*0.6%*
P/E (x)	**8.6x**	**9.6x**	**7.8x**	**6.9x**	**6.8x**
Small Industrials (ex Fin's)	16.6x	17.8x	15.9x	14.5x	13.8x
Premium / (Discount)	nm	nm	nm	nm	nm
EV/EBITDA (x)	**6.4x**	**6.0x**	**5.7x**	**5.2x**	**5.0x**
Small Industrials (ex Fin's)	17.7x	18.8x	11.3x	10.2x	9.4x
Premium / (Discount)	nm	nm	nm	nm	nm
DPS (¢)	**8.0**	**8.0**	**9.0**	**10.1**	**11.1**
Growth	*(27.3%)*	*0.0%*	*12.8%*	*11.6%*	*10.5%*
Yield (%)	7.4%	7.4%	8.4%	9.3%	10.3%
Payout Ratio (%)	64.0%	71.3%	65.0%	64.0%	70.3%
Franking (%)	100.0%	100.0%	100.0%	100.0%	100.0%
NTA	9.3	(10.7)	(3.8)	1.9	9.0
NTA/Share ($)	0.10	(0.11)	(0.04)	0.02	0.08

Performance Ratios	2015a	2016a	2017e	2018e	2019e
ROA	4.3%	4.4%	5.8%	6.2%	6.0%
ROE	12.2%	10.6%	12.9%	14.0%	13.5%
ROIC	18.8%	14.7%	16.4%	18.4%	19.4%
Net Debt (Cash) ($m)	77.2	49.9	43.2	42.4	37.9
Net Debt/EBITDA (x)	3.1x	1.9x	1.5x	1.4x	1.2x
ND/(ND + Equity) (%)	43.9%	32.3%	27.9%	26.5%	23.3%
Interest Cover (x)	3.7x	3.5x	4.5x	5.3x	5.1x
Working Capital	75.1	43.6	43.2	47.6	49.8
Working Capital/Sales (%)	21.5%	13.9%	14.8%	15.2%	15.4%

Cash Flow Metrics	2015a	2016a	2017e	2018e	2019e
FCF/Share ($)	**0.05**	**0.19**	**0.14**	**0.12**	**0.14**
Price/FCPS (x)	20.9x	5.8x	7.5x	9.2x	7.7x
Free Cash Flow Yield (%)	4.8%	17.3%	13.4%	10.8%	13.1%
Gross Cash Conversion	78.0%	116.0%	102.4%	86.5%	94.3%
Capex/Sales (%)	(0.6%)	(0.9%)	(1.0%)	(1.0%)	(1.0%)
Capex/Depreciation (x)	0.7x	1.1x	1.0x	0.9x	0.9x

Margins	2015a	2016a	2017e	2018e	2019e
EBITDA	7.2%	8.5%	9.7%	10.0%	10.0%
EBIT	6.5%	7.6%	8.7%	8.9%	8.9%
NPAT	3.4%	3.5%	4.9%	5.3%	5.2%

Valuation Methodology	
WACC (%)	12.5%
Discounted Cash Flow Valuation	1.274
Sum-of-the-Parts Valuation	n/a
Average Valuation	1.274
12 Mth Target Price	**1.350**

Source: Company data, IRESS, Moelis & Company research estimates 27-Sep-16

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