



ASX / Media Release

(ASX: MCP)

23 July 2019

McPherson's FY19 Preliminary Results

Strategic turnaround delivers underlying and statutory FY19 PBT of \$19.0 million, exceeding guidance

- 11% growth in sales revenue from owned brands on previous corresponding period (pcp)
- 13% growth in sales revenue from core six brands on pcp
- 125% growth in Dr. LeWinn's sales revenue on pcp driven by significant increase in export sales through our strategic and exclusive China partner ABM and strong domestic demand
- 15% growth in domestic A'kin retail scanned sales revenue on pcp, reflecting growth in Naturals category
- Underlying PBT of \$19.0 million, above top end of guidance, in line with pcp and 17% growth on continuing business excluding discontinued Coty Fine Fragrances distribution
- 24% decrease in net debt to \$7.5m (FY18: \$9.8m), with FY19 gearing of 7% (FY18: 10%) and FY19 leverage ratio of 0.3 (FY18: 0.4)
- Strong underlying operating cash conversion of 117% from continuing operations (FY18: 82%)
- Four strategic investments completed:
 - Soulful Australian owned 51%/49% venture: Completed 19 July 2019 and marks McPherson's first meaningful move into the Health and Nutrition spaces
 - Kotia New Zealand Skin Care: 51%/49% venture (launched in April): Secured exclusive national distribution agreement with Priceline in Australia and broad-based coverage distribution in New Zealand with Green Cross Pharmacies and Farmers
 - SugarBaby Australian owned venture: Launch of new proposition and range, targeting the fast-growing millennial segment, scheduled for October 2019
 - Aware Group: Investment made in conjunction with the strategic supply partnership ensuring supply continuity to fulfil strong Dr. LeWinn's demand from China

McPherson's Limited ("MCP", "McPherson's" or "the Group") today announced its preliminary unaudited results for the full year to 30 June 2019, generating an underlying profit before tax from continuing operations of \$19.0 million (FY18: \$19.0 million). The Group expects to report a statutory profit before tax of \$19.0 million (FY18: \$10.9 million), with no significant non-recurring items for FY19 (FY18: \$8.1 million).

The Group reported a 7% increase in total sales revenue from continuing operations (excluding Fine Fragrances) to \$210.3 million (FY18: \$196.2 million). The strong result was primarily due to the successful execution of McPherson's strategic business imperatives, resulting in 11% growth in sales revenue from owned brands on pcp, 13% growth in sales

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revenue from the core six brands and significant export and domestic growth (125%) on pcp from McPherson's key owned brand Dr. LeWinn's.

McPherson's Managing Director, Mr. Laurence McAllister said: "Our performance for the 2019 financial year demonstrates how our strategic business initiatives are successfully translating into results. Our focus on generating growth from our core owned brands has achieved double digit growth in core and owned brands.

"We are particularly pleased with how Dr. LeWinn's is performing and how our exclusive strategic partnership with ABM is delivering meaningful results and growth in China. The value of MCP's strategic supply partnership with the Aware Group was clearly illustrated in June 2019 as supply was professionally transitioned three months ahead of schedule to meet strong demand for Dr. LeWinn's products.

"During the year, we leveraged our strong financial position to make strategic investments to grow in the \$13 billion Health, Wellness and Beauty market. MCP has recently acquired 51% of the Australian owned health and wellness company Soulful, which marks our entry into the growing areas of health and nutrition, while the Kotia joint venture is building momentum with strong distribution agreements in place. The launch of a refreshed and improved range of quality SugarBaby products, scheduled for October 2019, extends our appeal to the fast-growing millennial market segment."

FY19 Final Dividend: The Board has given preliminary consideration to MCP's final dividend and, subject to completion of the audited FY19 financial statements, anticipates declaring an ordinary, fully franked final dividend of 6.0 cents per share (cps). Based on preliminary FY19 earnings per share of 13.0 cents, this would represent total FY19 ordinary dividends of 10.0 cps or a payout ratio of 77%, noting that an interim, fully franked special dividend of 2.0 cps was also paid in March 2019. The Group's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

FY20 Profit Guidance: Given the strong preliminary FY19 results announced today and the Group's confidence in the growth strategy and compelling new product pipeline, MCP will provide FY20 earnings guidance when the final audited FY19 financial results are released on 15 August 2019, noting that MCP has not offered 12 months forward earnings guidance for some years.

Underlying results from Continuing Operations	FY19 (\$m)	FY18 (\$m)	Change (\$m)	Change (%)
Sales revenue	210.3	210.4	(0.1)	0%
Underlying EBIT	19.9	21.6	(1.7)	(8)%
Underlying PBT	19.0	19.0	0.0	0%
Underlying PAT	13.7	12.9	0.8	6%
Underlying EPS (cents per share)	13.0	12.4	0.6	5%

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Underlying results from Continuing Operations Excluding Coty Fine Fragrances distribution	FY19 (\$m)	FY18 (\$m)	Change (\$m)	Change (%)
Sales revenue	210.3	196.2	14.1	7%
Underlying EBIT	19.9	18.8	1.1	6%
Underlying PBT	19.0	16.3	2.7	17%
Underlying PAT	13.7	10.2	3.5	35%
Underlying EPS (cents per share)	13.0	9.8	3.2	33%

Statutory results	FY19 (\$m)	FY18 (\$m)	Change (\$m)	Change (%)
Sales revenue	210.3	255.8	(45.5)	(18)%
EBIT	19.9	15.1	4.8	32%
PBT	19.0	10.9	8.1	73%
PAT	13.7	5.2	8.5	165%
EPS (cents per share)	13.0	5.0	8.0	160%

Net debt and cash flows	FY19 (\$m)	FY18 (\$m)	Change (\$m)	Change (%)
Net Debt	7.5	9.8	(2.3)	(24)%
Net Debt excl. joint ventures and Aware	1.6	9.8	(8.2)	(83)%
Gearing	7.1%	9.9%	(2.8%)	(28)%
Operating cash conversion (continuing, underlying)	117%	82%	35%	43%

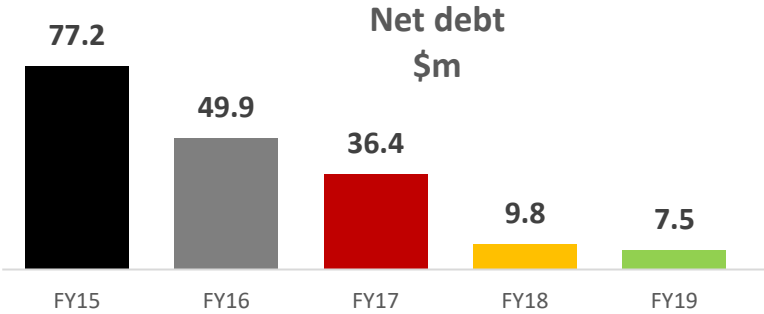
Update on strategic initiatives

The following table summarises the progress of the Group as at 30 June 2019 against its advised strategic business imperatives.

Strategic business imperative	Progress achieved
1. Refocus our business purely on Health, Wellness and Beauty	<ul style="list-style-type: none"> • Divestment of non-core categories (eg Home Appliances) • Strategic focus has been extremely well received by the leadership team, shareholders and investment community, primarily due to the market's \$13bn size, high margins and sustainable growth rates.
2. Revitalise our owned McPherson's brands	<ul style="list-style-type: none"> • 13% growth in sales revenue from core six brands on pcp in FY19 (FY18: 6% growth) • Reshaped our core portfolio to be more relevant to our target market with strong new packaging, visual identity, new formulations supported by clinical evidence; all these support our product differentiation and pricing proposition • Improved in-market presence with above the line marketing is enabling strong in-store execution and performance
3. Improve and maintain financial strength	<ul style="list-style-type: none"> • Imperative to facilitate growth and investment in the right people, capabilities and our brands.

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	<ul style="list-style-type: none"> • Divestment of non-core home appliances category, and supply chain driven initiatives, improved working capital management • 24% decrease in net debt, down to \$7.5m at 30 June 2019 (\$1.7m excluding investment in Kotia and Aware); gearing of 7.1% • Leverage ratio of 0.3 at 30 June 2019 indicates significant debt capacity • 117% underlying operating cash conversion (from continuing operations) • Poised to further invest to utilise our excess capacity and in-market Health, Wellness and Beauty capabilities <div data-bbox="630 712 1396 1025" data-label="Figure">  <table border="1"> <caption>Net debt \$m</caption> <thead> <tr> <th>Fiscal Year</th> <th>Net Debt (\$m)</th> </tr> </thead> <tbody> <tr> <td>FY15</td> <td>77.2</td> </tr> <tr> <td>FY16</td> <td>49.9</td> </tr> <tr> <td>FY17</td> <td>36.4</td> </tr> <tr> <td>FY18</td> <td>9.8</td> </tr> <tr> <td>FY19</td> <td>7.5</td> </tr> </tbody> </table> </div>	Fiscal Year	Net Debt (\$m)	FY15	77.2	FY16	49.9	FY17	36.4	FY18	9.8	FY19	7.5
Fiscal Year	Net Debt (\$m)												
FY15	77.2												
FY16	49.9												
FY17	36.4												
FY18	9.8												
FY19	7.5												
<p>4. Move from transactional to strategic partnerships with our top six customers</p>	<ul style="list-style-type: none"> • Developing true strategic partnership with top customers across Pharmacy and Grocery to grow market share • 65% customer increase in participation in value propositions • +48,000 incremental distribution points in FY19 across Pharmacy and Grocery channels • Category leadership appointments • Innovation partnership with Monash University, Food Innovation Centre and Mintel 												
<p>5. Integrate and grow acquired skincare brands: Dr. LeWinn's and A'kin</p>	<ul style="list-style-type: none"> • Demonstrated capability to integrate and grow acquired skincare brands Dr. LeWinn's and A'kin • Product and packaging innovation and clinical trials led to both brands thriving • 125% growth in sales revenue of Dr. LeWinn's • 15% domestic retail scan growth in A'kin sales revenue 												
<p>6. Create a China facing business</p>	<ul style="list-style-type: none"> • Strong China-facing business, with the right relationships, partnerships and business model, underpinned by appropriate pricing corridors across both domestic and export to create the rare virtuous cycle • Dr. LeWinn's has grown from \$1m in FY17, to \$3m in FY18 and \$16m in FY19 enabled by manufacturing step change investment and partnership with Aware Group 												
<p>7. Ensure we have our team fit for the future with appropriate expertise, capabilities and values</p>	<ul style="list-style-type: none"> • Have established a team fit for the future, with appropriate expertise, capabilities and values as MCP enters its 160th year in business • Focused on a revamped, strengthened R&D programme 												

	<ul style="list-style-type: none"> • New Business and M&A, Marketing, KAM and Export with 4 new Mandarin speakers joining the Sales and Marketing export team
8. Turnaround in NZ and Singapore and expand into Asia	<ul style="list-style-type: none"> • Reinvigorated Singapore and New Zealand businesses now back to growth trajectory • New Asia-focused business team in Singapore, will have a presence in 14 Asian countries by end of CY19 • NZ returning to profit with an FY19 PBT of NZ\$0.1m (FY18: NZ\$0.3m loss before tax) and 14% growth in sales revenue on pcp • Singapore now reset and ready to return to EBIT growth in FY20
9. Gain efficiencies and savings across the supply chain infrastructure	<ul style="list-style-type: none"> • Achieving efficiencies and savings across our supply chain infrastructure - Kingsgrove warehouse offering exceptional expertise, continuity and capacity for growth. • Transitioned Dr. LeWinn's skincare production to Aware Group to secure stable supply source for China • Targeting cost reductions of more than \$1 million in FY20
10. Create a New Business team focused on M&A and new ventures	<ul style="list-style-type: none"> • Invested in new business development infrastructure with team focused on M&A and new ventures now in place. • Successful launch of Kotia venture in Australia and New Zealand, exploring the export market in FY20 • Strong balance sheet to fund larger acquisitions that utilise our capabilities • Leveraging the Kotia venture model to scale future JV opportunities • Soulful acquisition completed in July 2019 marks McPherson's first meaningful move into the health and nutrition spaces

Further details on the FY19 result will be provided when the audited full year results are released on Thursday 15 August 2019. Webcast details in relation to the 15 August results release will be submitted to the ASX shortly.

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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 and via joint venture arrangements such as Kotia; 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>