ASX / Media Release **(ASX: MCP)**

29 April 2021

FY21 Trading & Operational Review Update

Receipt of Non-binding Indicative Offer from Arrotex at $1.60 per share

Board Confirms its Recommendation to REJECT the Gallin Offer

FY21 Trading Update

Key points:

- **Domestic sales growth is more than offset by the foreshadowed significant decline in export sales shipments of Dr. LeWinn's in Q4**
- **Importantly, underlying demand for Dr. LeWinn's products from Chinese consumers is broadly in-line with the prior corresponding period with growth expected to return once tourism and international student levels improve**
- **Export sales shipments of Dr. LeWinn's in FY21 will be abnormally low in Q4 and FY21 as the Group works through surplus inventory and takes a more conservative approach to forward stock positions**
- **FY21 Group sales revenue forecast in the range of $200 million to $205 million**
- **FY21 Group underlying EBIT forecast in the range of $10 million to $13 million**
- **FY21 Group underlying earnings per share forecast in the range of 5.0 cents per share (cps) to 6.5cps**
- **Dividend policy remains unchanged and will be applied to underlying profit after tax**

Commentary:

As noted in its 1H21 results release on 17 February 2021, McPherson's Limited ("McPherson's" or "the Group") signalled that its FY21 forecast had been impacted by the unpredictable and sporadic demand from Access Brand Management ("ABM"), its exclusive Dr. LeWinn's brand partner in China. Consequently, at that time, McPherson's signalled it was likely that "underlying profit before tax and earnings per share for 2H21 and FY21 would be materially below 2H20 and FY20".

McPherson's is today providing quantitative guidance for FY21. Total full year sales revenue is forecast to decline from $222 million in FY20 to the range of $200 million to $205 million in FY21. Australian domestic sales from owned brands are forecast to increase by 3%, excluding the acquired

Fusion Health and Oriental Botanicals brands, driven by forecast double-digit growth in market leading brands Manicare, Lady Jayne and A'kin.

With respect to our sales to ABM of the Dr. LeWinn's brand:

- Dr. LeWinn's volumes in China are cycling significant (high) promotional performances in the first half of calendar 2020.
- Promotional volumes in the first three quarters of calendar year 2020 drove an expectation of significant Q4 2020 outcomes.
- As noted in December, Q4 2020 promotional volumes post "peak" COVID19 were well below expectations and this led to a significant inventory surplus.
- Annualised growth of the brand has moderated, as it cycles these prior promotions, but remains strong. As at 31 March 2021, the financial year-to-date Gross Sales Value of 393 million RMB[i], the equivalent of $80 million AUD – was only 2% below the same period last year.
- McPherson's sales to ABM will fall from $37 million in FY20 to $8 million in FY21 as Q4 volumes are based around new product volumes and selective replenishment only – given the stock-weight remaining in the supply chain.
- Inventory associated with forecast demand in Q4 calendar 2020 is continuing to be absorbed by this year's consumer demand.
- Lower shipments between McPherson's and ABM in Q4 of FY21 are expected to support better supply chain management in FY22.
- McPherson's and ABM continue to work collaboratively to support the brand in which both entities have continued confidence.

This lower shipment expectation drives an amendment of forecast financial outcomes relative to consensus views as follows:

- Underlying Group FY21 earnings before interest and tax (EBIT) is forecast to be within a range of $10 million to $13 million;
- Underlying FY21 profit after tax is forecast to be in a range of $6 million to $8 million; and
- Underlying FY21 EPS is forecast to be in the range of 5.0cps to 6.5cps.

Managing Director and CEO, Mr. Grant Peck said, "Today's announcement of lower shipments of Dr. LeWinn's in Q4 of FY21 arises from a more thorough appreciation of underlying and moderated demand for the brand this year relative to last year's stronger growth, which was driven by an increased interest in the brand as consumer preferences shifted during COVID-19.

"In addition, it represents an unwillingness by McPherson's to continue to place inventory into the supply chain ahead of demonstrated demand.

"In difficult market conditions, the brand remains a strong participant in the ABM portfolio and together with our partners we have continued confidence in its ongoing relevance and appeal to Chinese consumers," Mr. Peck said.

The Group's balance sheet remains strong with net debt bank debt forecast to be in the range of $4 million to $8 million at 30 June 2021. Consequently, the Group intends to retain its dividend payout policy for FY21 and into the medium term.

Operational Review Update

As previously advised, Management and the Board are working through a comprehensive operational review. The outcomes from this review, which will be presented on 19 May 2021, will identify and prioritise McPherson's growth drivers, articulate steps to be taken to enhance its brand and product portfolio through research and innovation, develop the Group's growth strategy and identify operational efficiency improvements.

Unsolicited receipt of non-binding indicative proposal from Arrotex

On 28 April 2021 McPherson's received a non-binding, indicative proposal from Arrotex Australia Group Pty Ltd ("Arrotex") to acquire, by scheme of arrangement, all of the outstanding shares ("Shares") in McPherson's at an indicative cash consideration of $1.60 per share ("Arrotex Indicative Proposal").

The indicative price of $1.60 per share represents the following:

- a 31% premium to the closing price of $1.22 on 24 March 2021, being the day prior to the announcement of the Gallin Offer;
- a 33% premium to the 1 month VWAP up to 24 March 2021 of $1.20; and
- a premium of 19% to the Gallin Offer of $1.34.

In addition, Arrotex has stated it would be open to the McPherson's Board declaring a fully-franked special dividend payable to shareholders as part of the indicative offer price, subject to ATO approval, prior to completion of an agreed transaction with Arrotex.

The Arrotex Indicative Proposal is subject to a number of standard conditions, including:

- Completion of satisfactory due diligence within a 4 week period pertaining to accounting, financial, legal and key operational areas;
- Entry into a scheme of implementation agreement on customary terms and conditions, including:
  - receipt of a unanimous recommendation from the McPherson's Board for McPherson's shareholders to vote in favour of the scheme; and
  - a break fee payable by McPherson's to Arrotex compliant with the Takeovers Panel guidance; and
  - subject to the customary fiduciary outs in the event of McPherson's receiving a superior offer, customary exclusivity arrangements; and
  - final approval of the Arrotex Board and necessary approvals from Arrotex's debt financier.

Arrotex has represented to the Board that the Arrotex Indicative Proposal can be fully funded via a combination of debt and existing Arrotex cash reserves. Arrotex has provided a highly confident letter from its debt financier supporting the Arrotex Indicative Proposal.

Arrotex has further communicated that it does not anticipate that the Arrotex Indicative Proposal will be subject to any material regulatory conditions.

The McPherson's Board, together with its advisers, intends to work with Arrotex to develop a transaction that can be put to shareholders. Arrotex has been granted access to select due diligence information to progress the discussions subject to customary non-disclosure and standstill provisions.

McPherson's shareholders do not need to take any action in relation to the Arrotex Indicative Proposal at this time. The McPherson's Board will keep the market informed of developments as matters progress.

Board's recommendation regarding the Gallin Offer

On 25 March 2021, McPherson's received a Bidder's Statement from Gallin setting out its unconditional on-market takeover offer to acquire all the company's shares for $1.34 per share.

McPherson's issued its original Target's Statement in response on 8 April 2021 setting out the reasons why it recommended rejection of the Gallin offer. McPherson's confirms those reasons and that they are further supported by the information provided in this update.

Today's trading update makes it clear the FY21 result is adversely impacted by abnormally low, short term export sales of Dr. LeWinn's in FY21 and does not reflect the broad strength of the Group's owned brand portfolio and the long term health of the business, particularly as the outcomes of the operational review are implemented in FY22.

The recent acquisition of the Fusion Health and Oriental Botanicals brands are now integrated into McPherson's Sales, Supply Chain and IT systems, with associated synergies being realised. Management will unlock the full potential of its new Health Division in FY22, utilising the new Division to sell its range of complementary products into the specialist health channel.

McPherson's Chairman, Mr Graham Cubbin said: "The McPherson's Directors remain of the unanimous opinion that the Gallin Offer does not reflect McPherson's underlying value nor its strong core brand portfolio and its market position as a leading supplier of health, wellness and beauty products in Australasia and China."

The McPherson's directors unanimously reiterate their recommendation for shareholders to REJECT the Gallin Offer by taking no action.

Authorisation

This ASX announcement and media release has been authorised by the McPherson's Limited Board of Directors.

For further information please contact:

Investor enquiries:	Media enquiries:
Paul Witheridge 0414 760 489 pwitheridge@mcpher.com.au	Max Hewett 0432 332 215 mhewett@gracosway.com.au

About McPherson's Limited

McPherson's, established in 1860, is a leading supplier of Health, Wellness and Beauty products in Australasia and increasingly China, with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care and personal care items such as facial wipes, cotton pads and foot comfort products, as well as a range of kitchen essentials such as baking paper, cling wrap and aluminium foil.

McPherson's manages some significant brands for agency partners and via joint venture arrangements; 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

About Arrotex

Arrotex was formed in July 2019 following the merger of Arrow Pharmaceuticals ("Arrow") and Apotex Australia ("Apotex") and is now the largest supplier to the Pharmaceutical Benefits Scheme ("PBS") (by volume) and the most diverse pharmaceutical company in Australia. Prior to the merger, both Arrow and Apotex had longstanding positions in the Australian pharmaceutical market and have been trusted suppliers to pharmacies for over 20 years.

Today, Arrotex has significant experience in the pharmacy value chain as a leading supplier of generic pharmaceuticals, over the counter ("OTC") products and vitamins in the Australian pharmacy market. We supply over 250 PBS-listed generic medicines, a range of pharmacy only-OTC products under the Chemists' Own and ApoHealth brands and practitioner vitamins under the Amplio brand.

[i] Source – Access Corporate Group internal data (Sales from ABM to ABM platform participants)