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McPherson's FY2017 Results

(Underlying PBT of $19.6m; Statutory pre-tax loss of $4.7m)

- **Underlying[1] profit before tax up 15% year on year from $17.1m to $19.6m**
- **27% reduction in net debt over the last 12 months from $50m to $36m**
- **Improvement in Group underlying EBIT margins by 94bps to 8.6%**
- **Re-focused supply chain and operating platform for future growth in Health, Wellness & Beauty**
- **Strong leadership team enhanced with new appointments in R&D, Export, Key Account Management and New Business Development**
- **Reinvesting in core brand innovation to drive growth in market share and profit**

McPherson's Limited today announced underlying profit before tax from continuing operations of $19.6m[1] for FY2017 (FY2016: $17.1m[1]). The company reported a statutory loss before tax of $4.7m for FY2017 (FY2016: $14.6m profit), impacted by non-cash impairment of intangible assets totalling $21.6m (before tax) of which $19.8m (before tax) was reflected in the 1H2017 results as announced in February 2017.

Underlying profit before tax growth was driven by strong sales growth in core brands and improvements in the Group's margins.

Total sales revenue decreased by 10.6% from $312.6m to $279.5m as a result of the planned closure of the unprofitable Impulse Merchandising Division and declines in low margin private label and agency revenues.

The Board of Directors has declared an unchanged final dividend of 2.0 cps fully franked, payable on 20 October 2017 to shareholders on the register at 3 October 2017. The dividend re-investment plan remains in place.

Results summary for the year ended from continuing operations	FY2017 ($ million)	FY2016[2] ($ million)	Change (%)
Sales revenue	279.5	312.6	(10.6)
Underlying EBIT[1]	24.0	23.9	0.5
Underlying profit before tax[1]	19.6	17.1	14.6
Underlying profit after tax[1]	13.7	11.6	17.7
Statutory (loss) \ profit before tax	(4.7)	14.6	Large
Statutory (loss) \ profit after tax	(9.1)	11.0	Large
Net debt	36.4	49.9	(27.0)
Underlying earnings per share (cents)[1]	13.2	11.8	12.3
Statutory (losses) \ earnings per share (cents)	(8.8)	11.1	Large
Final dividend (cents – fully franked)	2.0	2.0	-
Full year dividend (cents – fully franked)	8.0	8.0	-

[1] Underlying amounts exclude the following significant, non-recurring items before tax:
FY2017: $21.6m impairment of intangible assets; $0.2m profit recognised from the divestment of Impulse Merchandising operation; $1.6m restructuring costs; $1.3m bond buyback costs.
FY2016: $5.8m restructuring costs; $2.0m gain on the sale of the Housewares; $1.8m 49% share of Housewares JV profit; $0.3m bond buyback costs and $0.2m legal & acquisition costs.

[2] The FY2016 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 $1.8m of Housewares JV profit, given this aspect of the Company's operations is not continuing.

McPherson's Managing Director, Laurence McAllister, said, "Strong sales growth achieved by our core Manicare and A'kin brands, in combination with broad based improvement in EBIT margins across the portfolio of Health, Wellness & Beauty brands, has resulted in a double-digit improvement in Group underlying profit, despite an adverse AUD/USD currency in comparison with last year. Importantly our working capital efficiency has also improved, leading to continued reduction in net debt and borrowing costs, strengthening both our balance sheet and operating capacity."

Looking ahead

Mr. McAllister said: "As a senior leadership team, we are firmly focused on the following key operational priorities for FY2018:

- Continue to invest in and accelerate the "big six" core brand performance;
- Build new capabilities in R&D, Export and Consumer & Business Intelligence;
- Reshape the structure of our trading terms to improve outcomes for our Key Account Customers and McPherson's via joint strategic business planning;
- Improve shelf presence and stock weight of core brands in our key Pharmacy and Grocery Customers;
- Transition a portion of distribution to optimise utilisation of our Kingsgrove site;
- Execute profitable growth in the Retail and Commercial Home Appliances channels;
- Return our New Zealand operations to profit; and
- Drive further growth in international sales through a focus on China and Europe.

Divisional performance

Our **Health, Wellness & Beauty** division, which includes our "big six" owned brands of Manicare, Lady Jayne, Dr. LeWinn's, A'kin, Multix and Swisspers, contributed 75% of Group revenue. The strategy to focus on our strong core brands, and reduce our participation in low margin private label categories, led to a 600bps improvement in contribution margins across our range, more than offsetting the decrease in revenue of 7%. Margin growth was achieved through new product innovation, sourcing cost reductions and a resetting of selling prices across the brands.

Of particular note was the substantial revenue and contribution margin growth in the Manicare brand, driven by new fashion-led innovations, an expanded product range and channel expansion. Swisspers, the industry leader in cotton products, achieved double-digit growth in contribution margin and maintained its market leadership position despite strong competition.

Margins for the market leading cosmeceutical skincare brand Dr. LeWinn's benefited from a focused brand optimisation project, which not only improved margins but also resulted in improved packaging and the commencement of sales distribution into the Chinese market. The A'kin natural skincare and haircare brand also achieved strong growth, particularly in the export channels into the British and Chinese markets. Trilogy, the natural skincare agency, continued to maintain a dominant position in its category.

Sales and contribution margin from **fine fragrances** (Gucci, Dolce & Gabbana and Hugo Boss) achieved a creditable result given the assignment of the distribution agreement from Proctor & Gamble to Coty and the withdrawal of Dolce & Gabbana from the new agreement. Coty has in-house distribution capability and therefore has given notice that it intends to cease the agency agreement with McPherson's from the fourth quarter of FY2018. Anticipating the loss of this account, McPherson's has signed agency agreements with two new partners in Q4 of FY2017, selected from a review of 40 potential candidates.

Following the closure of Masters, and delays in some key commercial building projects, sales in our **Home Appliances** division reduced by 7%. This division contributed 25% of Group revenue in FY2017.

The EBIT outcome for the Home Appliances division has led to a reassessment of the carrying value of its intangible assets, resulting in non-cash impairments of $7.0m and $5.0m in goodwill and brand names respectively. In addition, continued range rationalisation has also led the Company to revise the carrying value of the Revitanail brand and goodwill recorded in the Group's New Zealand operation resulting in non-cash impairments of $6.9m for the brand and $2.7m for goodwill. The total non-cash impairment of intangible assets was $21.6m (before tax) in FY2017. Management has advanced plans to improve the profitability of these assets.

Business Development

Following the successful implementation of our strategy to refresh our A'kin range, the Dr.LeWinn's, Lady Jayne, Swisspers and Maseur brands, will each benefit from new, contemporary packaging in FY2018.

Additionally, the Group is executing its strategy to grow its market share in the rapidly expanding Health, Wellness and Beauty categories with a significant investment in its internal Research and Development capability with a focus to create innovative new products in target growth segments.

The Group has also recently entered into two new agency agreements to support growth and profitability in the Health, Wellness and Beauty categories. These agreements are with:

- Dr Wolff comprising the Alpecin and Plantur haircare brands; and
- Karen Murrell, delivering a new range of natural lipsticks.

Strategic investments have been made within the Home Appliances business to grow both market share and profitability in the Retail and Commercial channels.

Cash flow, balance sheet and FX hedging

Improved working capital efficiency led to a strong operating cash flow outcome with cash conversion of 113%. Consequently, net debt reduced by 27% from $49.9m at 30 June 2016 to $36.4m at 30 June 2017. The company's gearing ratio (net debt/total funds employed) reduced from 32.3% to 29.2% over the same period.

The buy back of an additional $10m of fixed rate corporate bonds in November 2016 and $15m in variable rate corporate bonds in March 2017, in combination with reduced net debt levels, will result in lower borrowing costs going forward.

The company's foreign exchange hedging policy was amended in June 2017 to extend the period of hedging for all estimated USD purchases to 12 months. The previous policy was for estimated USD purchases for all grocery customers to be hedged 12 months forward and other customers hedged 8 months forward. The instruments used for foreign exchange hedging remain unchanged, being options and foreign exchange contracts on a rolling basis.

Mr. McAllister said: "Over the past year we have continued to deliver improvements in the financial position and profitability of the business, which puts us in a strong position to invest in innovation and capitalise on growth opportunities in our key markets. I am confident that we will continue to make positive strides in market share and profitability in FY2018."

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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 overseas agency partners such as Gucci and Hugo Boss prestige fragrances and 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.