



MCPHERSON'S

Est. 1860

Full Year Results Release FY17  
23 August 2017

Laurence McAllister  
Managing Director

Paul Witheridge  
Chief Financial Officer

# McPherson's Overview

Established 1860, McPherson's is a leading supplier of health, wellness and beauty products and a standalone home appliance business

Operations in Australia, NZ, Hong Kong and Singapore, employing 420 staff

Last 18 months have been about delivering operational turnaround, healthy financials, strengthening the balance sheet and building tomorrow's capabilities today

# Highlights from the Year

Underlying profit before tax up 15% to \$19.6m (2016: \$17.1m)

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 & New Business Development

Reinvesting in core brand innovation to drive growth in market share & profit



# Financial Update



# McPherson's Overview

Underlying profit before tax up 15% to \$19.6m driven by strong growth in core brands, margin improvement, and disciplined cost management

Healthy balance sheet and substantially improved financial position

- \* Net debt reduced from \$92m at 31 December 2015 to \$36m at 30 June 2017
- \* Corporate bonds reduced from \$60m to \$25m. Buybacks to continue
- \* Financial position has absorbed and adjusted to AUD/USD depreciation from USD1.10

Final dividend of 2.0 cents per share fully franked (2016: 2.0 cps) and full year dividend of 8.0 cents per share fully franked (2016: 8.0 cps)

Strong financial platform for future growth

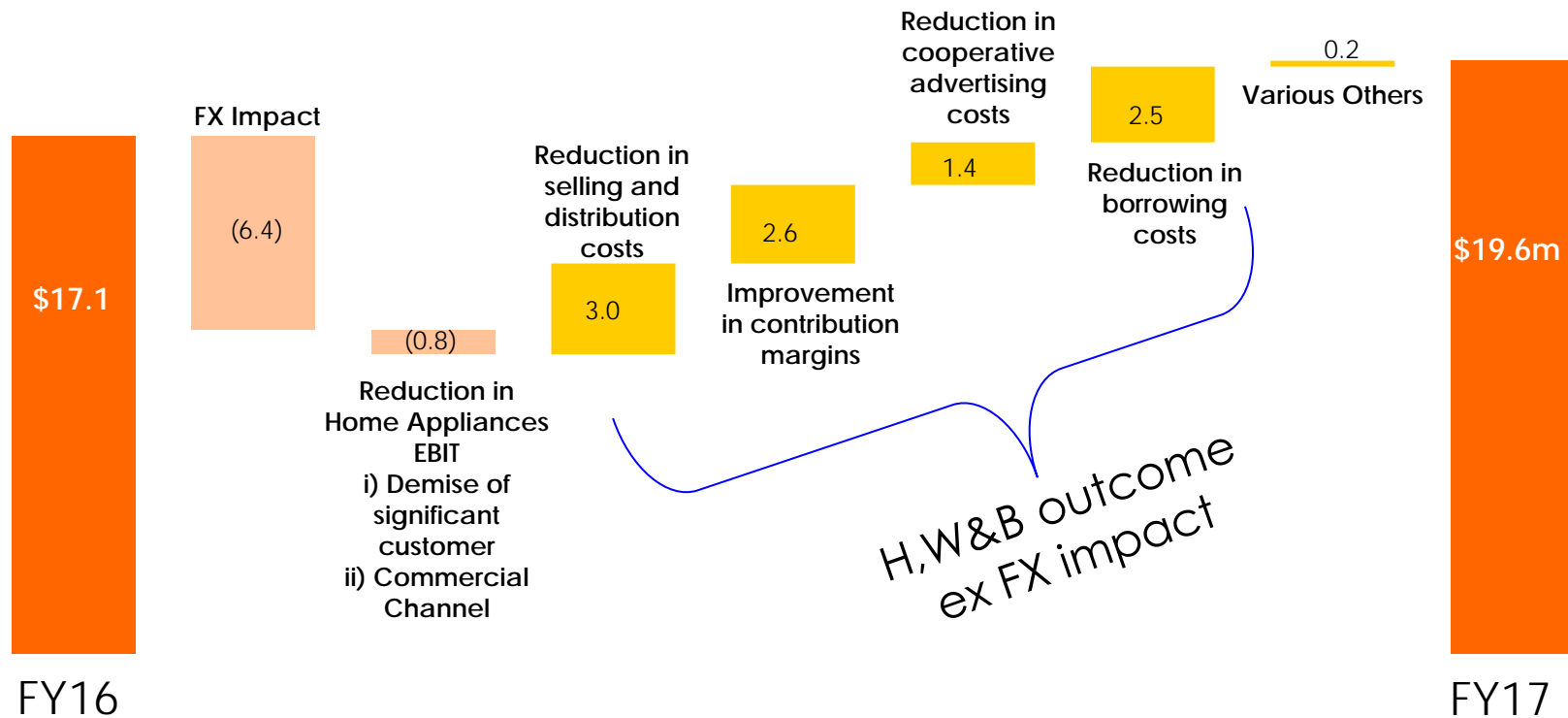
# Financial Highlights

## Underlying Results from continuing operations\*

Revenue from continuing operations	\$279.5m	↓ 10.6%	Closure of Impulse Merchandising Division Reduction in low margin private label and agency sales
Earnings before interest and tax	\$24.0m	↑ 0.5%	Improved contribution margins Reduced selling and distribution costs Adverse AUD/USD currency impact
Profit before tax	\$19.6m	↑ 14.6%	Significant reduction in borrowing costs due to 27% reduction in debt and reduced effective interest rate
Profit after tax	\$13.7m	↑ 17.7%	
Earnings per share	13.2cps	↑ 12.3%	

\* Underlying amounts exclude the results of the Housewares JV (divested 31 March 2016) and the other significant, non-recurring items outlined on Slide 8

# Underlying PBT FY16 to FY17 (\$m)



# Significant Items

Significant Items A\$m	FY2017	FY2016
Impairment of Home Appliances intangibles	(12.0)	-
Impairment of Revitanail brand	(6.9)	-
Impairment of New Zealand business segment	(2.7)	-
Restructure costs	(1.6)	(5.8)
Bond buy back costs	(1.2)	(0.2)
Profit on divestment of IMD Singapore	0.2	-
Gain on Sale of Housewares JV	-	2.0
Legal and acquisition costs	-	(0.2)
<b>Total Significant Items before Tax</b>	<b>(24.2)</b>	<b>(4.2)</b>
Tax benefit on Significant Items	1.3	1.8
<b>Total Significant Items After Tax</b>	<b>(22.9)</b>	<b>(2.4)</b>



# Key Cashflow and Balance Sheet metrics

Underlying Cash Conversion*	113%		\$30.8m operating cash flow before interest and tax payments
Net Debt	\$36.4m	↓ 27.0%	Strong operating cashflow Improved working capital efficiency
Gearing	29.2%	↓ 3.1pp	Strong financial platform
ROFE **	15.4%	↑ 0.6pp	Solid return on funds employed
Normalised EBIT Interest Cover	5.4 times	↑ 1.6 times	EBIT*** / Interest†
Normalised leverage Ratio	1.3 times	↓ 0.6 times	Net Debt / EBITDA***

\* Operating cashflow / Underlying EBITDA excluding non-recurring items.

\*\*Underlying EBIT / Total funds employed. \$20.6m impairment of intangibles (after tax) added back to funds employed.

\*\*\* Underlying EBIT and EBITDA exclude significant, non-recurring items

† Interest normalised to exclude bond buyback costs

A collage of hair styling tools on a white background. In the top left, a round brush with a black handle and copper-colored head is partially visible. In the top right, a green hair extension is shown. In the center, a black comb with red teeth is partially visible. In the bottom left, a round brush with a black handle and copper-colored head is shown, with the brand name 'LADY JAYNE' printed on the handle. In the bottom right, a long, straight hair extension is shown. A yellow banner with the text 'Operational Update' is overlaid in the center.

# Operational Update

# Strategic Drivers

Focus is clear: Investing in McPherson's Health, Wellness & Beauty Branded stable is the #1 priority

Re-shaping trading terms with Key Account customers, via joint business planning for mutual growth

Selectively introduced new agency partners to enable re-investment in McPherson's

Realise the Supply chain / Kingsgrove EBIT opportunity & re-invest in MCP

Strong leadership team enhanced with appointments in R&D, Export, Key Account Management, Strategy, Planning & Innovation and New Business Development

# Winning In Health Wellness & Beauty:

## HEALTH



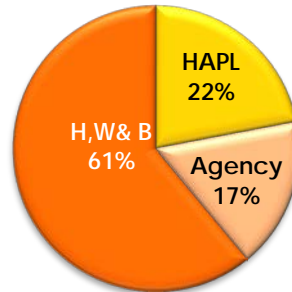
## WELLNESS



## BEAUTY

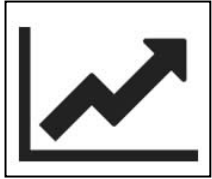


Net Sales  
Contribution

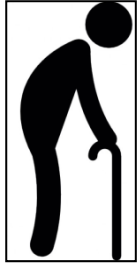


# Why Health Wellness & Beauty?

High  
Growth



Aging  
Population



Traditional  
Channels  
sales flat  
over 4 years



Focus beyond  
dispensing to  
front of shop



China seeking high quality AU and NZ H,W & B Brands



# Capture Growth in Health, Wellness & Beauty

H&W

**\$4.6 Bill**

Est. Industry revenue  
2017-18

**+15%**

CAGR

**>66%**

Australians use  
complimentary  
medicine(CM))

**1.3 Mill**

People add CM to  
existing treatments

Beauty

**\$4.0 Bill**

Est. Industry revenue  
2017-18

**+3.2%**

CAGR

# Brand Portfolio & Re-Investment Priorities

## HEALTH



DR·WOLFF

## WELLNESS



## BEAUTY

DR. LEWINN'S®



[A'kin]®



trilogy®

goodness  
NATURAL BEAUTY LTD

karen  
murrell.

GUCCI



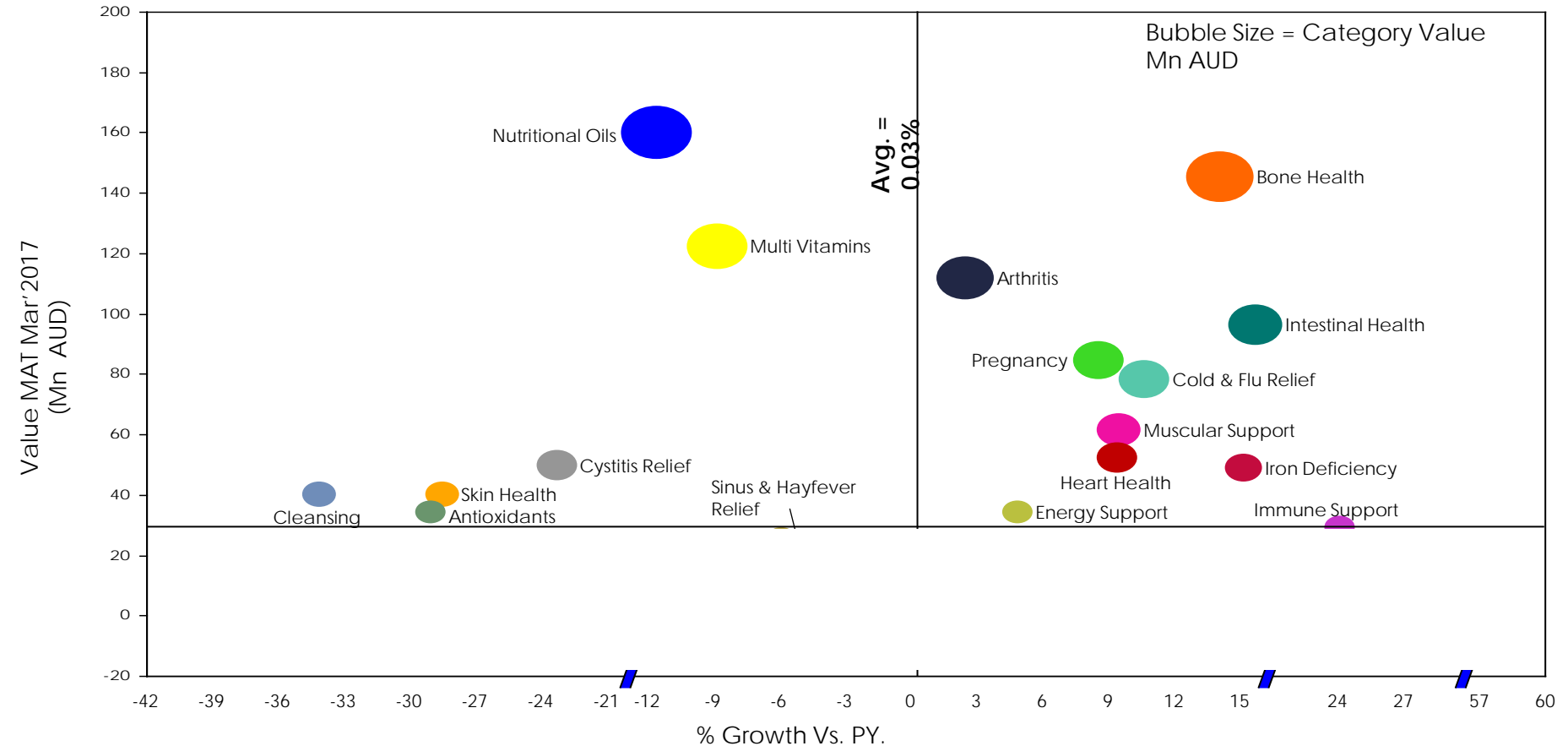
## Investment Priorities

DR. LEWINN'S®

[A'kin]®



# Health, Wellness & Beauty Landscape



Measure: Value Mn AUD



# Executing on strategy by refreshing the visual identity and packaging of our brands

## BEFORE



## AFTER



# Reshaping Key Account Trading Terms

- Increased commercial focus and execution capabilities with our “big 6” customers
- Driving mutual growth through joint business planning
- Pharmacy channel sales more than doubled in the past six years

coles

Metcash

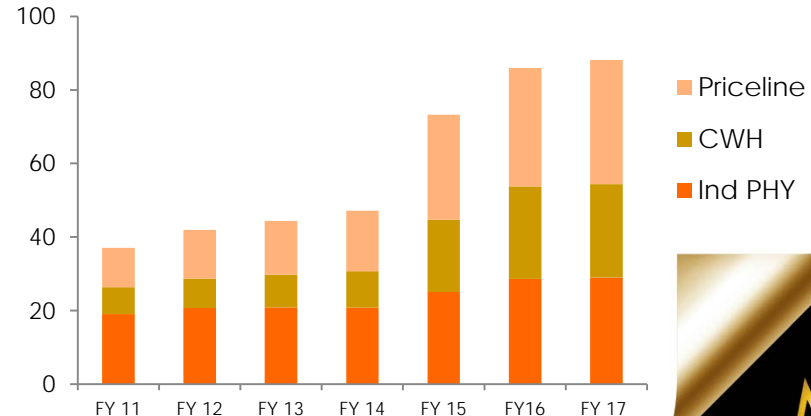
Woolworths  
the fresh food people

Stop Paying Too Much!  
CHEMIST  
WAREHOUSE  
DISCOUNT  
CHEMIST

priceline  
beauty health wellbeing

TerryWhite  
Chemmart

## Revenue Growth Pharmacy Channel



# Selective Agencies delivering synergy, efficiencies & scale



## Karen Murrell – All Natural Lipsticks partnership

- Domestic and export strategic partnership
- Bundling opportunities with other brands
- Potential to add margin that can be recycled into other brands

## Dr Wolff – European Alliance partnership

- All products have a unique brand positioning and strong global distribution
- Expands our portfolio and provides scale in \$1.2B haircare category
- Has the potential to add over \$10m in revenue that can be reinvested in our own brands



# Platform for Growth via Enhanced Capabilities

- Kingsgrove DC Facility is a significant enabler to reinvest in McPherson's brands
- Delivered significant efficiencies to free up supply chain capacity
- Next steps will be about building on the platform for the future;



**Customer Insights & Business Intelligence**

**Project Management Discipline**

# Walking the talk on the Export Business

## A'kin



- Working together to drive A'kin in the UK and EU
- A'kin has been positioned as a straightforward and simple choice to a confused customer.
- Distributed through Holland & Barrett, Wholefoods market, Naturismo, Waitrose, Aer Lingus, Thomas Cook.
- Targeted purchases of \$1m in Year 1

## A'kin Distributor



- Specialise in natural, good value – mid tier skincare and health brands
- 5 star Tmall TP store operator
- Secured the opening of Akin's Official Tmall store.
- Targeted purchases of \$1m in Year 1

## Dr. LeWinn's Distributor



- Specialise in Premium skincare brands
- Focus will be on Luminosity and Eternal Youth
- Exclusive repackaged range (based on Korean design) of Luminosity for China only.
- Forecasting purchases of \$2.0m in Year 1
- Marketing and building the brand in China from virtually zero presence.

# Outlook



# Poised For Growth

We have re-shaped the financials of the business

Reinvesting in McPherson's core brand innovation to drive growth in market share & profit

Moving from a "transactional supplier" status to a "strategic partner" with our Key Accounts

We have a supply chain platform that is fit for the future

We have the capabilities to exploit high value, high demand & high growth segments in Health, Wellness & Beauty

*'McPherson's, a journey of profitable growth...'*



# Appendix





# Senior Leadership Team

**Laurence McAllister**  
*Managing Director*

**Paul Witheridge**  
*CFO*

**David Smith**  
*Business Development Director*

**Brett Owers**  
*New Business Commercial Finance Director*

**Sarah Tully**  
*HR Director*

**Lori Pirozzi**  
*National Accounts & Export Director*

**Byron Stone**  
*Field Sales Director*

**Donna Chan**  
*Marketing Director*

**Mary Pearce**  
*R&D Director*

**Mark Brady**  
*Supply Chain Director*

**David Fielding**  
*Strategy, Planning & Innovation Director*

**Sammy Chan**  
*MD MCP Hong Kong*

**John Ceresa**  
*GM HAPL*

**Rebecca Wakefield**  
*Executive Assistant*

# Group Financial Summary for FY2017

## Continuing operations\*, excluding non-recurring items

	FY2017 (\$A million)	FY2016* (\$A million)
Sales	279.5	312.6
Cost of Goods Sold	160.1	179.5
Gross Contribution	119.4	133.1
Expenses	92.1	106.4
EBITDA	27.3	26.7
Depreciation & amortisation	(3.3)	(2.8)
<b>EBIT</b>	<b>24.0</b>	<b>23.9</b>
Interest	(4.4)	(6.8)
<b>NPBT</b>	<b>19.6</b>	<b>17.1</b>
Tax	(5.9)	(5.5)
<b>NPAT</b>	<b>13.7</b>	<b>11.6</b>
EPS (cents)	13.2	11.8
EPS (including non-recurring items) (cents)	(8.8)	11.1
Total dividend (cents – fully franked)	8.0	8.0

10.6% decrease in Sales

13.4% decrease in Expenses

2.2% increase in EBITDA

0.5% increase in EBIT

Interest cover 5.4 times

14.6% increase in NPBT

17.7% increase in NPAT

\* The impact of the Groups 49% interest in the Housewares JV is excluded from FY16 as it was divested on 31 March 2016.

# Group Financial Summary for FY2017

## Statutory (i.e. including non-recurring items)

	FY2017 (\$A million)	FY2016* (\$A million)
NPBT excluding non-recurring items	19.6	17.1
Non-recurring items:		
- Impairment of intangibles	(21.6)	-
- Restructuring costs	(1.6)	(5.8)
- Bond buy back costs	(1.3)	(0.2)
- 49% share of Housewares JV profit*	-	1.8
- Gain on Sale of Housewares JV	-	2.0
- Other non-recurring items	0.2	(0.3)
<b>Statutory NPBT</b>	<b>(4.7)</b>	<b>14.6</b>
Income tax expense	(4.4)	(3.6)
<b>Statutory NPAT</b>	<b>(9.1)</b>	<b>11.0</b>
<b>Statutory EPS (cents per share)</b>	<b>(8.8)</b>	<b>11.1</b>

\* The impact of the Groups 49% interest in the Housewares JV is excluded from FY16 as it was divested on 31 March 2016.

# Group Operating Cash Flows

	FY2017 (\$A million)	FY2016 (\$A million)
Cash flows from operations		
Receipts from customers (inclusive of GST)	312.3	354.7
Payments to suppliers and employees (inclusive of GST)	(281.5)	(320.5)
<b>Net cash inflows from operations before interest and tax</b>	<b>30.8</b>	<b>34.2</b>
Net interest and borrowing costs paid	(5.2)	(6.3)
Income tax paid	(1.4)	(3.0)
<b>Net cash inflows (outflows) from operations</b>	<b>24.2</b>	<b>24.9</b>

# Group Investing and Financing Cash Flows

	FY2017 (\$A million)	FY2016 (\$A million)
<b>Cash flows from investing activities</b>		
Payments for acquisition of business assets	-	(8.5)
Payments for purchase of property, plant and equipment	(1.6)	(2.9)
Payments for purchase of intangibles	(0.3)	(1.0)
Proceeds from sale of business assets	0.5	18.3
<b>Net cash outflows from investing activities</b>	<b>(1.4)</b>	<b>5.9</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	4.0
Net proceeds from (repayment of) borrowings	1.8	(13.0)
Bond buy-back	(25.9)	(10.0)
Dividends paid (net of DRP participation)	(7.5)	(6.9)
Interest rate swap extinguishment	(1.0)	-
<b>Net cash outflows from financing activities</b>	<b>(32.6)</b>	<b>(25.9)</b>
<b>Net increase / (decrease) in cash held</b>	<b>(9.8)</b>	<b>4.9</b>

# Overview of Group Balance Sheet

	FY2017 (\$A million)	FY2016 (\$A million)
Inventories	59.3	59.8
Receivables	40.2	44.8
Payables	(48.6)	(48.8)
<b>Net working capital</b>	<b>50.9</b>	<b>55.8</b>
Property, plant & equipment	4.9	5.8
Intangibles	93.0	115.1
Provisions & other net liabilities	(13.5)	(15.3)
<b>Total funds employed</b>	<b>135.3</b>	<b>161.4</b>
Net financial debt	(36.4)	(50.0)
Net tax balances	(10.4)	(7.0)
<b>Shareholders' funds</b>	<b>(88.5)</b>	<b>104.4</b>
Gearing [Net debt / (Net debt + Shareholders' funds)]	29.2%	32.3%
ROFE (Underlying EBIT / Total funds employed*)	15.4%	14.8%
ROSF (Underlying PAT / Shareholders' funds*)	12.6%	11.1%

\* Impairment of intangibles of \$20.6m (after tax) added back.

# Top 15 Holders

Rank	Investor	Holding (shares)	Holding (%)	Cumulative (%)
1	Investors Mutual	9,800,000	9.4	9.4
2	Microequities	7,525,667	7.2	16.6
3	Dimensional Fund Advisors	5,125,548	4.9	21.5
4	Mr Paul J Maguire	2,433,143	2.3	23.8
5	Adam Smith Asset Mgt	2,229,201	2.1	25.9
6	TBF Investment Mgt	1,914,246	1.8	27.7
7	Realindex Investments	1,640,049	1.6	29.3
8	Regal Funds Mgt	1,605,137	1.5	30.8
9	Mr Yaron Shamgar	1,450,000	1.4	32.2
10	Cadence Asset Mgt	1,405,279	1.4	33.6
11	Mr & Mrs Brian R James	1,400,000	1.3	34.9
12	Farnam Investment Mgt	1,116,742	1.1	36.0
13	Mr David Madden	925,000	0.9	36.9
14	Mr & Mrs Peter J Stirling	850,000	0.8	37.7
15	Manifest Capital Mgt	732,932	0.7	38.4

SOURCE: Orient Capital analysis as at 07 July 2017

# McPherson's Limited

## ***Non-IFRS measures***

The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.

## ***Disclaimer***

Statements contained in this presentation, particularly those regarding possible or assumed future performance, estimated company earnings, potential growth of the company, industry growth or other trend projections are or may be forward looking statements. Such statements relate to future events and expectations and therefore involve risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward looking statements.