McPHERSON'S
ACN 004 068 419

McPHERSON'S LIMITED
MANAGING DIRECTOR'S ADDRESS
By MR LAURENCE MCALLISTER
ANNUAL GENERAL MEETING 21 NOVEMBER 2017

Good morning to all of our shareholders here today. I am pleased to report that McPherson's has achieved a very solid 12 months. Having turned a corner after a period of significant transformation, our focus is now all about driving as much profitable growth, from this challenging Australian retail environment.

Before I reflect on the 2017 financial year highlights and business performance and go into more detail about our Group's strategy, I would like to address right upfront the announcement from yesterday where we expect the first half of the year to be impacted by the current challenging retail environment. I would like to talk to you about is some positive initiatives coming through in the second half of the year.

I feel we need to divide this into three buckets

1. Our Brands
2. Our customers
3. Geographic opportunities

On our brands, year to date, this financial year all 5 of our 6 Core Brands are growing in sales & against contribution margin, (Multix the brand excluded here) , as you will see we have revamped the visual identity packaging and new product development of our Core 6 Brands. Given the incremental profitability verse the rest of our business this set us up for a good second half of the year.

On Coty Fragrance negotiations are landing us in a good position financially and in alignment with a profitable transition within the exiting Coty agreement.

We have renegotiated strong mutual trading terms with My ChemistWarehouse, given us access to their assets and vehicles such as TVC, What's on in the Warehouse, in store activation and strong online presence against Dr LeWinn's A'kin, Manicare, Lady Jayne and Swisspers. In Priceline we have seen a bounce back in October results due to rerouted sales reps visits and the trial of weekly replenishment instore.

Additionally we have aligned Eternal Youth above the line starting February 2018, and A'kin to move from one to two shelves in Quarter 1 also, both these accounts are supporting a 25% increase in sales for A'kin alone year to date.

Other wins that will impact the second half is Woolworths ranging of Manicare and the incremental 11 lines across Multix and Swisspers in Metcash

And lastly on Customers we have just singed off to support Coles in Private Label that offers us a $6m annualised net sale, incremental business starting in February 2018.

Geographically we have signed the two largest export traders being HVK Trading and Healthmores both these partners will start selling our export range post the Chinese New Year, February 2018 and as recent as overnight we have just signed a new agreement to go into the Japanese territory with Japan Holdings, this is an exciting incremental territory the commences in March 2018.

With all of these initiates coming in to play we have every confidence we can restore the business in the second half.

2017 saw the business largely complete its transformation and with this, we were very pleased to deliver a 15 per cent increase in underlying profit before tax to $19.6 million. Our top performing brands for the full year were Manicare, A'kin, Eylure, Dr. LeWinn's, Multix and Swisspers, with each delivering strong contribution growth.

Of particular note was the success of our Manicare growth strategy. We executed fashion-led innovations such as Glam by Manicare, broadened the product range, targeted younger consumers resulting in expanded channels which delivered substantial incremental revenue and contribution margin growth from the total Manicare brand.

While total revenue declined as a result of the closure of the Impulse Merchandising division and discontinuation of lower margin brands and products, we improved the revenue quality, with an EBIT margin improvement of 94bps to 8.6 per cent, and a reduction in costs of 12.6 per cent.

Through this planned brand consolidation and product rationalisation, and supported by process improvement, we have substantially increased supply chain capacity at our Sydney distribution centre in Kingsgrove. We have basically opened up an extra 50% worth of capacity. This increased capacity presents us with opportunities to warehouse and distribute more profitable product lines as these are cream, due to the infrastructure sunk cost.

We further strengthened the company's balance sheet in FY2017, with net debt decreasing 27 per cent from around $50 million at 30 June 2016 to $36 million at 30 June 2017. This significant improvement in financial position was due to strong operating cash flow before payments of interest and tax of $30.8 million, reflected in a cash conversion rate of 113 per cent.

The Board declared full year dividends of 8 cents per share, fully franked.

McPherson's strategy

McPherson's strategy is to grow in health, wellness and beauty. These are attractive markets (generating close to $8.6 billion in revenues), and offer long-term growth and opportunity for scale, that is fundamentally underpinned by the compelling global aging population phenomenon. Combined with McPherson's existing core strengths in sales, marketing and logistics, we have a very compelling business model with huge potential for growth and category & portfolio expansion.

Our growth in health, wellness and beauty will be driven by four strategic pillars. Over the next 3 years, we will seek to:

1. Grow our core 6 owned brands: Manicare, Lady Jayne, Swisspers, Dr. LeWinn's, A'kin and Multix;
2. Explore new product growth platforms;
3. Move from transactional to strategic customer and supplier partnerships; and
4. Drive value from our geographic footprint.

McPherson's end to end capacity and capability across its supply chain, route to market and IT platforms, provides the important base from which to build these strategic pillars.

In the short to medium term, agency brands also play an important role in complementing our portfolio, strong customer relationships, distribution scale and provide a diversity of channels.

Growing our Core 6 Brands

Our desire is to grow our core brands at a faster pace than our overall business.

We can do this by:

- Extending our leading market positions with branding, packaging improvements and marketing initiatives;
- Being first to market in R&D and innovation. That means having the right team dedicated to R&D and innovation. Graham mentioned that we have recently hired Dr. Mary Pearce as our head of R&D and we are really excited to have her on board to help us achieve this goal. Mary joins us from BWX, within Sukin's technical team.
- We will benefit from leveraging consumer insights and business intelligence. Understanding our customer, their behaviour and the future trends will help us make decisions to maintain and grow our brand leadership. To this point we have conducted an elasticity study and are subsequently adapting some of our pricing by SKU to ensure the appropriate value / purchase intent relationship exists. This is particularly important in the current Australian retail context. We will create new usage occasions and access new segments. We're looking at travel packs in A'kin for example, and how we access the travel market in airports and transit areas to drive profitable growth in duty free.
- And lastly, over the next three years we will focus on ensuring our marketing function is appropriately structured to meet the needs of these growing brands.
- Consumers are seeking a personal relationship with their brands. We have recently invested in a best in class digital platform to upgrade our websites and e-commerce capabilities. Through our fully integrated marketing campaigns, on-line content such as: product tutorials, product selector guides and exclusive behind the scenes videos; are enabling our brands to develop a deeper connection with consumers.
-

I am pleased that we are already seeing results from this strategy, with our core brands (excluding Multix) all achieving strong growth in contribution margins in the 2017 financial year.

Ensuring we have brands that stay fresh and relevant will help extend our market leadership. In the last year, we have undertaken branding and packaging improvements to Dr. LeWinn's, Lady Jayne, A'kin, Swisspers and Maseur and we are already receiving positive feedback from customers on these new branding and packaging initiatives.

Being first to market in R&D and innovation is important. The Multix brand is a market leader and I'm very excited about the launch just this month of an eco-friendly Multix Greener range, which is now on the shelves of Coles and Woollies. This new product range demonstrates our ability to use consumer insights and research, take that knowledge and create an innovative product, and leverage our scale and current retail relationships to bring the product to market. The Multix

Greener range makes absolute sense - it's already seeing strong positive reception in store. Shoppers are increasingly taking a more active stance to reduce their environmental footprint and we want to meet that need ahead of the competition & private label.

This new range will be advertised in mainstream channels - the first advertising of this nature for Multix since the 1980's.

Strategic Pillar: Explore new product growth platforms
Our strategy is also focussed on exploring new product growth platforms. This means considering opportunities to acquire, partner, joint-venture or organically develop products. Our goal is to balance our portfolio from heavily beauty dependence, to a spread across health, wellness and beauty.

We have a comprehensive evaluation criteria to ensure that whatever new products or brands we consider, they leverage our strengths and are the right strategic fit for our business.

We will continue to optimise our portfolio to ensure all assets support our growth strategy.

Strategic Pillar: move to strategic customer and supplier partnerships
In the last year, we have increased our focus on driving strategic customer and supplier partnerships.

Our customer base includes some of the largest and most successful retailers in the country - Chemist Warehouse, Priceline, Coles, Woolworths and Metcash. We are the number one Australian beauty branded partner in Pharmacy and better engagement means better understanding of each other's business goals. We are already some way down this path: this year we step-changed our engagement at a senior level and are now implementing closer joint business planning for mutual growth.

Over the coming period, we will work to refresh and modernise our commercial operating model by building out new distribution channels and using technology to support speed to market. Entering new channels is important in diversifying our revenue across customers, channels and geographies.

We are excited to be in early discussions with Amazon, a new channel to distribute a number of our products. We look forward to updating you further on this as we progress those discussions.

Lastly, we are developing stronger relationships with our suppliers to better align our business and leverage their customer insights. We are looking at new working models to support this.

As I mentioned, we are the number one Australian-owned beauty supplier to pharmacies. Joint business planning with these customers will help us to maintain and grow our position as these customers grow.

An example of successful joint-planning has seen Dr. LeWinn's take greater space on Chemist Warehouse's website. Chemist Warehouse is our largest pharmacy client and through our active redesign of our trading terms with Chemist Warehouse we now have joint business planning in place to meet both of our strategic priorities.

Strategic Pillar: drive value from geographic footprint
The final pillar of our strategy is to drive value from our geographic footprint.

As you know we currently have operations in Australia, New Zealand, Singapore and the UK. In Australia, we have a strong position that we can build on. In New Zealand, we are making business improvements to turnaround the operations and leverage our current agency agreements. In Singapore, we are seeking to use this as a base to enter South-east Asian markets. Another area of opportunity over the coming period is growing our network in the UK. Our agreement with Graphters, entered into in this past year, has seen A'kin distributed into the UK via customers such as Waitrose, Holland and Barrett, Wholefoods market and Air Lingus.

International sales do not currently contribute a significant portion of our revenue, however we have had initial success this year with Dr. LeWinn's partnership with Access China and A'kin's expansion into Asia with NYSO and we view this as a significant area of opportunity.

In particular, we see excellent opportunity to grow in the Chinese market over the next 3 years. We have already seen interest from the Chinese consumer in Australia, via the Diagou network. In Australia, this network is sizeable with around 200,000 Diagou in operation and over 1,500 Diagou gift stores. With a growing demand for natural and organic based beauty products, it is not surprising that we are seeing interest in A'kin, Dr Le.Winns, Trilogy and Karen Murrell through the Diagou network.

We are also utilising the distribution network of Chemist Warehouse to sell directly into the Chinese market via online channels. With over 460 million online shoppers in China (CNNIC, KFD Analysis, 2016), the market opportunity is significant. You may be aware we have negotiated a silver package for the Chemist Warehouse Tmall site and are seeing a great return.

McPherson's is now one of the first of 50 companies in Australia to be a part of the Trusted Trader Program, which helps to streamline export procedures both in Australia and with nations signed up to the program. This will provide added benefits to our export business in the coming year as distribution grows.

We are taking a measured approach to offshore distribution and growth. We want to ensure we have the right relationships, right channels and right capabilities to underpin sustained and profitable growth in these markets.

Current Market Environment
It will come as no surprise to tell you that we are in a tough operating environment, where discretionary spend is under pressure. Consumer confidence is soft, wage growth is at record lows and energy costs have sky-rocketed.

Shoppers are taking note of costs, focussing on what is essential and more importantly, on value, and this is being felt by some of our customers.

1HFY18 Outlook
With this challenging market backdrop, and the effect of reduced sales from brands that have been intentionally rationalised over the past year, we expect a decline in 1HFY18 revenue by single-digit percentage compared with last year and a decline in underlying profit before tax of between 10 - 15 percent compared with last year.

As many of you know, the November and December is a critical period for our customers, and for McPherson's. Typically, a significant portion of our half year revenue is generated in this 6-8 week window. Our expectations are based on the best knowledge we have at this time as we head into this important trading period.

We look forward to providing guidance for the full year in February 2018.

Fit for the Future

In summary, our business is in a very strong position and fit-for the future within this challenging Australian marketplace:

- We have market leading core brands that are growing;
- We have the right management team to pursue our strategy;
- We have excellent customer and supplier relationships;
- We have refined our export business model and now have the right partnerships & operating governance in place with first class distribution infrastructure, capabilities & capacities;
- We are evolving to an owned brands / equity business model;
- We have re-shaped our financial position with reduced gearing and strong cashflows; and
- We have a clear strategy for growth. We understand our market challenges and we are well-positioned to participate in this market.

Health, Wellness and Beauty are the right markets for us, offering ample opportunity to grow over the long-term.

We are dedicated to quality brands: brands that are built on a foundation of excellence, affordability and a core connection to their customer.