



**McPHERSON'S LIMITED
MANAGING DIRECTOR'S ADDRESS by MR LAURENCE McALLISTER
ANNUAL GENERAL MEETING 21 NOVEMBER 2018**

Thank you Graham, and good morning to all our shareholders here today. I hope you will find the new AGM presentation format more compelling. It is designed to provide greater insights into the business, including the drivers, our potential, our challenges and more importantly our people and capabilities that will be key to delivering the desired outcomes for this now transformed McPherson's business.

On behalf of the Management Team, I would like to take a moment to express our gratitude to the refreshed Board, for your genuine engagement, support and ongoing balanced critique of the business, the strategic plans and their execution. We now operate with a Board construct that mirrors our strategy and required capabilities across Health, Wellness and Beauty within a domestic and international FMCG context.

As you are no doubt aware, we are very pleased that our Company had a strong result for the 2018 financial year across many measures.

Last year we set ourselves six key priorities for the financial year.

Firstly, to accelerate our core 6 owned brands.

Secondly, to live and realise the virtuous cycle of the export business opportunity.

Thirdly, to execute supply chain optimisations, to allow us to invest in our core owned brands.

Fourth, to divest the Home Appliances business and reset our focus back into Health, Wellness and Beauty.

Fifth, to redesign the top six customers' trading terms, via joint business plans for mutual growth.

And finally, to return the New Zealand business back to profitable growth.

So how did we go? Well, I'm pleased to say that we have addressed these key priorities in an assertive manner, and that's reflected in the strong financial outcomes and a very healthy balance sheet.

Our key owned brands are growing again at 6% annually, reducing our reliance on revenue from non-core brands, and

now enjoying stronger mutually beneficial trading terms with our key customers and suppliers.

This delivered a 17% increase in underlying group PBT, supported by a 42% increase in our skincare brands revenue and driven not only by domestic demand but also through the export channel. This is key as we acquired these brands 3-4 years ago, and it is important that we can demonstrate strong growth in acquired assets through our route to market capabilities and category expertise.

Additionally, before we could sell the Home Appliances business, we had to optimise it and return it to EBIT growth. We were able to achieve this and received a 7x EBITDA multiple that also supported our other financial initiatives, equating to a 73% net debt reduction. All the above has been executed by a revamped cross functional team.

So, let's look at the trading environment.

We have successfully de-risked the business across all key considerations within our scope of control. As we will share with you today, it's not only about the financial / balance sheet de-risking step-change, but about the portfolio, the consumer and customer landscape both domestically and internationally, as well as improving our crucial processes, capabilities and governance as a listed Company to win today and tomorrow.

However, right up-front I think it is important to set the scene across our operating environment, due to a combination of elements out of our scope of control, as well as share with you how we are driving the business to responsibly address and offset these recent and well documented forces.

In August and September, we saw two consecutive drops in consumer confidence, with low CPI growth, record household debt levels, and very close to home for MCP is our margin management regarding the combination of soft retail, commodity price increases and foreign exchange devaluation within the AUD/USD dynamic.

For those not familiar, we continue to operate a comprehensive foreign exchange hedging program, which mitigates the immediate impact of the Australian / US dollar movements. The Group's foreign exchange hedging policy will remain unchanged in the short term.

So, let's look at some other Macro trends that support Health, Wellness and Beauty.

These 4 opportunities make up part of our consideration set that you will see as we go through Donna and David's sections.

- China facing opportunities are very attractive given the size of the prize and the attractiveness of Australian and NZ product quality and benefit perception – We now have a very interesting business with Dr. LeWinn's and ABM in China and we also have something very new and differentiated to share with you later today.
- The Natural space appears to be a trend that is with us ongoing and consumers are researching and seeking natural and organic solutions such as our A'kin range.

- Environmental solutions are in vogue and not going away. Consumers, and in particular, Mum is voting with her wallet as we are enjoying the success of our Multix "Greener" proposition.
- And pro-active care is massive, and on the increase, underpinned by the mega trends of pride in appearance and anti-aging products especially supported by an aging population. In China there is a phrase that means Early Anti-Aging that is driven by females in their twenties...we are seeing our Dr LeWinn's mask business explode due to this dynamic trend.

Now turning to our strategy for growth. There is absolutely no change here in our strategic focus. We are wholly focussed on our strategy to grow the business in the \$13 billion Health, Wellness and Beauty market segment and categories in which we operate, and that's just domestically in Australia.

So, let me now hand over to Marketing Director Donna Chan and then to Director of Strategy, Planning and Innovation David Fielding, to share our progress to date across these strategies, I'll then come back and wrap up. Thank you and over to you Donna.

In the Millennial consumer we have seen an increasing desire for wellness and lifestyle. They are a generation who are proactively looking after their long-term health and wellbeing. Within skincare they are more knowledgeable and discerning about what products they use. We've seen the meteoric rise of the single use face mask which is now part of the Millennial's basic skincare regime.

We have many leading brands within our owned brand portfolio. More importantly we have brands that are competing in high growth categories and brands that are driving category growth.

Dr. LeWinn's is the number 1 Australian Cosmeceutical brand in Australian pharmacy. Competing in the high growth skincare category, Dr. LeWinn's is enjoying strong growth, with Chemist Warehouse leading the way with a 37% increase on last year, driving demand across both domestic and daigou customers.

Strong growth momentum continues for Dr. LeWinn's, with investment in brand equity increasing brand awareness. Rejuvenation of our core ranges, with new packaging and stronger supportable claims, has attracted new users to the brand and delivered 8 times more sales for our award winning Reversaderm range following its recent relaunch. Innovation in collagen masks has accelerated our growth, with 1 mask being sold every 60 seconds. Maintaining continuity of supply remains a good challenge for our China hero products within the Line Smoothing complex range.

As Laurie mentioned, masks are a massive macro trend and are a key area of focus for our Research and Development team. The mask category is expanding globally, with a strong growth trajectory expected to continue for many years to come. As a leading cosmeceutical brand, Dr. LeWinn's is well positioned to innovate and grow in this category.

A'kin competes in the fast growing natural skincare, haircare and deodorant categories. Within skincare our growth of 40% is outpacing category growth, moving A'kin skincare up the rankings to number 9 in pharmacy, with increasing market share. Natural haircare also continues to perform strongly, with A'kin maintaining our number 2 position within the pharmacy channel. New products and increased share of shelf are the two key drivers for our domestic business.

From an international perspective, expansion into new markets and customers across Asia and the UK are fuelling further brand growth.

As market leaders within the hair accessories and beauty tools category it is our responsibility to drive category growth. Both the Lady Jayne and Glam by Manicare brands have successfully attracted younger consumers to our brands, with new products, advertising and high profile brand ambassadors.

In August, Manicare launched a major innovation in the pharmacy channel with the Manicare Sonic Mini, a gentle vibration cleanser which is clinically proven to clean 5 times more effectively than using hands alone. The Manicare Sonic Mini is the number 1 contributor to beauty accessories category growth in Priceline, has risen to be the number 13 top seller in the category and has increased market share for Manicare by almost 2 percentage points.

Sustainable innovations are a core focus for both the Multix and Swisppers brands. Our sustainability journey for Multix began with the launch of the Multix Greener range in February this year, followed by the new ReUse Me range in October, which offers a range of products that reduces the need for single use plastic. Additionally, Swisppers launched the first to market paper stem cotton tip in Australia, giving consumers an alternative option that reduces the impact on the environment.

The launch of the Multix Greener range, which has delivered 9.5% incremental sales growth to the category, "above the line" brand investment and customer support to range 15 incremental products has propelled Multix back into growth, growing faster than the category to increase share by 2.8%. In the latest quarter, Multix is the fastest growing brand within the Bags, Wraps and Foil category, driving strong growth across our Greener range, Kitchen Tidy, Baking Paper and Foil ranges.

We are investing in the Multix brand to build brand equity and drive category growth. This included our Multix television commercial which reached consumers over August, September and October on high rating shows such as The Block, 60 Minutes and Prime Time News.

We have an in-house digital team which is focused on amplifying brand campaigns, collaborating with our retail partners and syndicating our digital assets both domestically and internationally. Examples of our achievements in 2018 include 2 million advertising impressions for our recent Glam activation, reaching over seven hundred and fifty thousand consumers each month on our social platforms, engaging consumers daily with brand videos and reaching over five hundred thousand consumers with our influencer campaigns.

Strategic customer relationships are pivotal to our success. Our strong partnerships are cemented at the highest level and we build mutually beneficial joint business plans to drive success for both parties. Our new trading terms have unlocked new ways of working together which have delivered increased participation and strategic investment with our retail partner assets.

We have also forged strong innovation partnerships to build tomorrow's business today. Monash University is working with us to investigate new sustainable materials and help us identify emerging macro trends to leverage across our brands.

As the number 1 Australian Beauty supplier, we have significantly increased participation with our customers in leveraging their retailer assets. We are achieving phenomenal results for our brands including strong consumer uptake of our Glam exclusive

consumer promotion in Priceline, double digit sales growth for Reversaderm in the Chemist Warehouse "What's on in the Warehouse" program, participation in Goody Bags, which drives significant consumer trial, and promotional activity amplified via Priceline's Sisterclub database containing over 7 million members.

Catalogues reach over 20 million Australians each week and they are ranked as the number 1 media for helping consumers make purchasing decisions. We use catalogues extensively across all our brands and with all our major retail partners.

Catalogues form an important part of our media mix; driving traffic into store for our customers and providing consumers with compelling offers to try our products.

With the rate of innovation across our brands and our focus on core range compliance, we have successfully achieved incremental ranging and channel expansion in over one thousand doors across both Grocery and Pharmacy. Examples include 12 incremental Multix products in Woolworths and Coles, incremental ranging of Manicare in 450 Woolworths doors, an extra shelf for A'kin in 131 Priceline doors, an extra shelf and 21 new lines for Glam in Priceline, and 15 new lines in Chemist Warehouse to support party season.

In addition to this, major activation plans have been developed hand in hand with our customers to execute high impact, big launches in store. We have executed a number of off-location stands to support new product launches for A'kin, Dr. LeWinn's and Lady Jayne.

Given the importance of real estate in store, we have increased our investment in merchandising stands this fiscal year by 45%. Over the last 2 months we have implemented a major transformation in 120 Chemist Warehouse stores for our Manicare, Glam and Lady Jayne brands. We've significantly improved the shopper experience with shelf navigation, interactive screens and touch and feel product stations.

Our Director of Strategy, Planning and Innovation, David Fielding, will now take you through an overview of the Health, Wellness and Beauty landscape and an exciting new venture that we have commenced in this space.

I would now like to take you through an update on how McPhersons is exploring new growth platforms.

Firstly, I acknowledge the role of our agency brands. Our strong agency brands really do compliment the McPherson's owned brand portfolio in helping to deliver efficiencies as well as solutions to the needs of our thousands of customers.

In November 2017 we undertook an opportunity mapping process called "Project Landscape" to provide strategic direction on new growth platforms for McPhersons with a detailed focus on Health, Wellness and Beauty. This exercise identified companies, categories and brands that are experiencing tremendous growth domestically as well as internationally.

So why are we focussed on Health, Wellness and Beauty? With a market of well over \$13 billion in Australia alone it is an exciting space. Driven by consumer trends around aging population (living better, longer), a desire for more natural, less toxic solutions for skincare, hair care and digestibles, as well as the fantastic

opportunities internationally (Australian brands comprise 3 of the top 10 sellers during the recent Alibaba Singles Day) there is no doubt we are focussing on the right area.

We are observing certain consumer trends in Health, Wellness and Beauty that we are really excited about;

Green movement:

- The Green movement has gradually moved from niche to mainstream;
- With increased transparency around what goes in or on to our bodies there is a growing concern around toxicity;
- Retail customers are reacting fast and driving the charge to ban certain chemicals in beauty, baby, and personal care; and
- We actively participate in this space with brands like Akin, as well as agency brands such as Trilogy and Karen Murrell.

Gut Health:

- From probiotics, i.e. balancing good and bad bacteria to the rapidly evolving field of the microbiome;
- Exciting new discoveries show that both bacteria and fungi play a critical role;
- Probiotic supplements with added prebiotic fibre; and
- New products that include beneficial fungi and bacteria.

Collagen:

- The ultimate gut-healing superfood;
- One of the cleanest types of protein powders;
- Great for skin care, anti-aging, repairing the gut, wound healing, and boosting the immune system;
- Our observation has been that people are actively adding this to their daily or multi daily routines, e.g. added to coffee.
- Bone broth: A rich, natural source of collagen; and
- Collagen matcha, coffee-infused bone broth and bone-broth-based vegetable drinks.

Health Food Reigns:

- Driven by Millennials, with an estimated \$1 trillion of buying power;
- Consumers expecting brands to:
 - Deliver meaning and nutrition in their products;
 - Reflect their values;
 - Help them meet their wellness goals; and
- Both with on-the-go foods e.g. protein balls, all the way through to shakes and super food powders

Cell Energy:

- Mitochondria are “power plants” in the cells that turn food and oxygen into energy;
- Mitochondria power the biochemical reactions in cells; and
- Healthy fats – supplements, powders, snacks.

When we translate the trends into what is happening in the market today these trends are impacting buying behaviour. For example, skincare through Australian Grocery and Pharmacy is the second largest growth category just behind Infant Formula in Grocery and Vitamins in Pharmacy. Although population growth is driving some of this,

there is significant Daigou purchasing of skin care brands from Grocery and Pharmacy.

The reason Skincare is growing so fast is the influence of the Daigou consumer sending skincare to China. In this example the export measured channel is growing at over 14%.

The chart only shows what is captured over the scanners in major retailers, i.e. it does not capture the online sales, sales through Daigou gift stores etc. which means that the opportunity is many times larger.

Brands like Akin and Dr Lewinn's are being driven by this growth. It is also where we are investigating new growth opportunities.

Switching gear slightly, I wanted to touch on how we evaluate new opportunities.

The initial evaluation covers 50 ratings across 10 different assessment areas.

What is important is that it is a comprehensive process from start to finish, creating a funnel process for quickly exiting non-performing opportunities and allowing the organisation to focus on the real winners. This process has resulted in us exiting over 40 non-performing opportunities in the last 12 months alone.

- The focus of these opportunities is on joint value creation
- In negotiations we have been focussed on low / modest upfront payments which reflect the small, start-up nature of the opportunities we have identified
- This means a lower risk profile with the initial equity paid on modest multiples over the first 3 years based on actual outcomes for the categories we are entering
- The opportunities that we have identified are with trusted partners
- This means that our partners have true industry experience and bring unique IP / brands / business practice to the venture
- There is a strong fit which shows that there are shared values and behaviours
- It means that as we jointly look forward there is a shared alignment on the strategic opportunities for growth
- Both parties mutually recognise what each one uniquely brings to the table, i.e. the venture partner brings IP, trademarks, proprietary category / business practices, whereas McPherson's provides many strong functional skill sets to enhance brand growth
- All the IP, trademarks, patents etc. resides in the new venture company
- Looked at through the lens of both the domestic opportunities for Australia and New Zealand as well as the Export opportunities, especially in China
- There is a roadmap to 100% ownership of the enterprise over time.

This brings us to a very exciting opportunity that I want to share with you today ... a first to market, namely ... Kotia, a new range of Deer Milk Skincare.

This is the first example of a unique model where the venture partner brings the IP, trademarks, and unique business practices, and McPherson's turbo charges the start up through its strength in key account sales, export partner relationships, supply chain and consumer marketing.

Firstly, I want to introduce Graeme Shaw who is the founder of Kotia and has been on a 6 year journey of discovery. He has an amazing story to tell in terms of how Kotia came to life. Kotia is the first example of McPherson's moving into new venture models.

It is definitely a world first in Skincare, with a unique proposition and strong barriers to entry.

Kotia is an amazing story of discovery - it was in the journey to make cheese that Graeme accidentally stumbled across the amazing properties of deer milk. It's also an amazing story of provenance heralding from a magical part of the world being the South Island of New Zealand near Queenstown. Working with our China facing partners we are also exploring the opportunity with Chinese consumers.

Let's find out exactly who Kotia is.

The combination of natural actives in the deer milk plus scientifically formulated emulsions are brought together to deliver proven efficacy. The focus has been on enhanced hydration which is what Enhanced Beauty seekers are looking for. They are proactively managing their appearance, and are definitely looking for new trends and experimenting with new products.

What is really obvious about deer milk is that it has all the best properties. For example vitamins, minerals as well as fats and proteins.

The Kotia skincare range has been through rigorous testing to ensure that it stands up to its claims.

It also has the backing of Lincoln University in Christchurch which was asked to conduct independent trials on the hydrating properties of the Deer Milk skincare products.

The range provides consumers with the opportunity to develop a complete Kotia regime for skin enhancement.

There is definitely innovation taking place in the fast growing face and eye mask segments as well as a gentle hand cream which fits with the original discovery.

In conclusion, we are extremely excited about Kotia as our first venture model. A first to market, namely a premium Deer Milk skincare range targeting Enhanced Beauty Seekers with proven clinical performance.

- As we look at future opportunities with the rigorous process that we described earlier, we feel that we are in great shape to look at opportunities irrespective of whether they are built in-house all the way through to significant merger and acquisition deals
- The balance sheet is in a strong position which means that we have not stopped out focus on either smaller bolt on acquisitions and / or a more significant acquisition
- The focus of these opportunities is to complement our existing brand portfolio and accelerate our share of the fast growing Health, Wellness and Beauty categories

I'll now hand back to Laurie to cover off our exciting journey in the Export and International markets.

Due to time constraints, I will not go into our broader expansion plans, as I would like to focus on our China strategy. We have positions across South East Asian markets from our Singapore office where we have an established presence already, while also developing new relationships in the North Asian region.



Additionally, we have also developed a solid and growing business in the UK with the A'kin brand.

Given the demographic and pure market size, China is a key focus for the business as we expand A'kin, Dr LeWinns and our strong Trilogy and Karen Murrell agency portfolio, as well as potential new brands.

It's estimated by 2030, China will have 850 million people in its middle class. I think we all agree the numbers in China are enormous and AUS and NZ brands are extremely well placed to prosper from this opportunity.

So how does the business model work?

We are all too familiar with vicious cycles, however if designed and executed precisely there is an opportunity for this extremely unique virtuous cycle of brand building and re-investment across Domestic and China.

Here is a real-life example of the virtuous cycle:

We have had probably 20 approaches, and these are our carefully chosen trusted partners. So, we are now participating in the export business and our relationships are very strong and continue to gain momentum with great partners and with great people on board internally across the newly formed Export and Marketing team, that includes 5 Mandarin speakers within our business.

In summary, the positive and negative influences on our business currently include:

Negative Influences:

1. Foreign exchange and commodity pressures on margins.
2. Soft retail market across Pharmacy and Grocery.
3. Cycling the Fragrance business, especially in the first half.

Positive Influences:

1. Core Brands – McPherson's has a very good track record, the right capabilities and financial strength to build successful brands and grow them domestically and offshore.
2. Joint Partnerships and Strong Pharmacy Position.
3. Export Building – Growing again in NZ and Singapore.
4. New Ventures in M and A - actively pursuing acquisition or partnerships like the one we announced today, Kotia, which complements our existing portfolio and capabilities.
5. Supported by great people focussed on building tomorrow's business today.
6. A healthy balance sheet – given our strong position we have the capital to support continued growth in our owned brands and new business.

I would like to finish up by thanking you our Shareholders, the Board, the management team and our 430 employees and business partners for their hard work and contribution to the McPhersons progress to date, and I look forward to updating you at the 1st half results in February 2019.

Thank you. I will now hand back to Graham to continue the formal meeting procedures.

Laurence McAllister
Managing Director