ASX/Media Release (ASX: MCP)
23 February 2022

McPherson's 1H2022 Results Release

Summary – Financial Results

- **Sales revenue** increased 7% to $108.8 million (1H21: $101.7 million)
- **Organic domestic growth** in owned brand sales of 11%
- **Underlying PBT** of $6.7 million and **statutory LBT** of ($3.0) million in-line with guidance
- **Strong balance sheet** with net bank debt of $8.8 million and gearing of 7%
- **Interim dividend** of 3.0 cents per share (cps) fully franked, payable on 18 March 2022
- Finalised $9.4 million provision for Dr. LeWinn's inventory, as announced previously

Summary - Progress & Outlook

- **Resetting and transforming the business:**
  - As the pre-pandemic originally planned staged JV arrangements with Access Brands Management (ABM) have not been completed, a broader channel and portfolio strategy has been initiated for Dr. LeWinn's in China
  - Completion of Commercial Business Unit Management and Reporting structure to drive focussed accountability and profitability
  - On track to implement operating cost reduction initiatives generating annualised savings of $3 million
- **Board Changes**: Helen Thornton appointed as new non-executive Director on 20 December 2021 and Graham Cubbin retired from the Board with effect from 21 February 2022
- **Reiteration of FY22 Outlook statements made on 1 November 2021**, subject to no deterioration in the domestic economy and supply chain predictability
- Forecast net bank debt at 30 June 2022 is now expected to be slightly lower at $1 million to $3 million below 30 June 21 (FY21: $8.4 million)

McPherson's Limited ("McPherson's" or "the Company") today announced its 1H22 results, with sales revenue increasing 7% to $108.8 million (FY21: $101.7 million). Underlying profit before tax of $6.7 million (1H21: $7.0 million) and statutory loss before tax of ($3.0) million[1] (1H21 profit before tax: $1.4 million[1]) were in-line with previous guidance. A summary of 1H22 and 1H21 results is provided as an Appendix.

McPherson's Chief Executive Officer and Managing Director, Mr. Grant Peck said: "11% growth in organic owned brand sales in the domestic market, driven by double digit growth in Manicare, Lady Jayne and Swisspers, despite the challenges presented by COVID-19, illustrates the growth potential of the business.

"Supply chain disruptions in November and December, together with substantial increases in commodity and sea freight costs, compromised our underlying profitability during 1H22. However, selling price increases in 2H22 and anticipated improvement in supply chain consistency are forecast to re-establish profit growth in the second half.

"The stability of our revenue base, underlying profitability and cashflow over this particularly difficult trading period reflects the resilience of our team, our balance sheet and our market leading brands."

[1] The significant items included in 1H22 statutory LBT and 1H21 statutory PBT are outlined in the Appendix.

1H22 Commercial Business Unit (CBU) Performance

Australian and New Zealand - Beauty and Household Consumables (ANZ CBU)

Underlying results	1H22 ($m)	1H21 ($m)	Change ($m)	Change (%)
Sales revenue	96.7	92.6	4.1	4%
Underlying EBIT	10.8	11.3	(0.5)	(4%)

Over 1H22, the ANZ CBU achieved market share growth in 4 of the 6 owned brand product categories in which it operates. Following substantial growth achieved in FY21, and now under renewed leadership, the CBU generated further growth in its **essential beauty** category in 1H22 where sales grew 18% to $38.3 million, driven by 25% growth in Swisspers, 19% growth in Manicare and 10% growth in sales of Lady Jayne products. New product innovations and a shift toward home-based beauty solutions, continues to result in improved demand for the Company's core essential beauty products.

Domestic sales of Dr. LeWinn's and A'kin products grew 3% and 17% respectively, with A'kin benefiting from incremental ranging in the grocery channel. These growth rates were achieved despite the recent COVID-19 enforced lockdowns, weakening demand in the broader cosmeceutical and natural skincare categories, demonstrating McPherson's market outperformance. Further, this growth was achieved in the context of the absence of international students and tourists which has led to reduced daigou demand in these categories. The Group's domestic sales of **skincare, haircare and bodycare brands** increased 6% to $12.9 million, despite broader category declines.

McPherson's **household essentials** category is dominated by Multix, which is the market leader in many sub-categories of bags, wraps and foils in the grocery channel. Multix sales increased by 5% in 1H22 to $27.9 million, with strong demand for Multix Alfoil products, garbage bags and baking papers.

Margins in the ANZ CBU were supported by the mix swing to essential beauty. However, overall contribution margin was adversely impacted by higher commodity and sea freight costs over 1H22, particularly impacting the Multix and Swisspers brands. Total operating expenses increased 4%, primarily due to increases in carton freight and advertising expenses. Consequently, ANZ underlying EBIT declined 4% to $10.8m.

In response to the significant cost inflation noted above, material selling price increases have been agreed with key retailers in the household essentials category with implementation commencing this month.

Health

Underlying results	1H22 ($m)	1H21 ($m)	Change ($m)	Change (%)
Sales revenue	8.4	1.3	7.1	NCM[2]
Underlying EBIT	1.3	0.2	1.1	NCM

The newly formed Health CBU comprises the premium Fusion Health and Oriental Botanicals brands. The 1H22 performance for Health was impacted by difficult trading conditions on the eastern seaboard with many health stores and pharmacies experiencing reduced foot traffic during COVID-19 lockdowns, particularly in Q1. Additionally, some raw material shortages and supply chain instability impacted core product inventory positions.

Contribution and EBIT margins were, however, in-line with expectations for 1H22, representing a strong performance given the difficult circumstances.

[2] NCM – Not considered meaningful due to 1H21 results being applicable to 1 month of trading due to acquisition on 30 November 2020.

International

Underlying results	**1H22 ($m)**	**1H21 ($m)**	**Change ($m)**	**Change (%)**
Sales revenue	3.7	7.8	(4.1)	(53%)
Underlying LBIT	(1.1)	(0.5)	(0.6)	(120%)

Consistent with the Company's ASX release on 1 November 2021, sales of Dr. LeWinn's product to China of $1.0 million in 1H22 were $3.4 million below 1H21 ($4.4 million) as cross-border e-commerce distribution into China remains constrained by excess inventory and reduced consumer demand.

1H22 sales into Singapore and surrounding countries declined to $1.9 million (1H21: $2.2 million) as significantly reduced in-bound tourism adversely impacted retail trade.

The resulting decline in 1H22 contribution from the International CBU was partially offset by a significant reduction in expenditure on advertising and promotion.

On 1 November 2021, the Board announced a prudent, one-off provision in the range of $8 million to $10 million in relation to excess Dr. LeWinn's inventory (and associated costs) that was acquired in 2019 and 2020 specifically to satisfy anticipated demand from China. A detailed review has subsequently been undertaken with a significant one-off provision of $9.4 million reflected in the 1H22 financial statements.

Operational Review update

The Operational Review undertaken in 2H21 to capitalise on opportunities in the Health, Wellness and Beauty category and deliver shareholder value, focused on four key strategic pillars:

- Continued focus on core owned brands and key domestic channels
- Establish health & wellness as a new growth platform
- Expand international footprint
- Recalibrate cost base

The following actions have been taken to progress these outcomes during 1H22.

1. *Operating model for Dr. LeWinn's in Greater China*

   Sales of Dr. LeWinn's product to China were significantly below expectations in 1H22, with cross-border e-commerce (CBEC) distribution into China likely to remain challenging over at least the next 12 months.

   With the unanticipated consequences created by the pandemic, the originally planned staged JV arrangements with ABM have not been completed.

   ABM has been advised of McPherson's intention to address the broader CBEC channel and that this will involve engaging with alternate distribution and marketing partners.

2. *Completion of CBU Management and Reporting structure*
   The Company has embedded a new management and reporting structure to support and drive individual CBU responsibility for revenue and profit targets, marketing, customer relationships and commercial delivery.

3. *Cost reduction initiatives*
   Management is well progressed in realising annualised cost reductions of at least $3 million. In addition to the leaner Senior Leadership Team, these cost reductions include the exit from loss making joint ventures and reduced warehousing costs.

Cash Flow and Balance Sheet

The 1H22 underlying cash conversion rate was seasonally low at 48% (1H21: 67%), given planned inventory increases ahead of Chinese New Year shutdowns and seasonally high Q2 sales. Despite this, net debt, excluding lease liabilities, remains low at $8.8 million and the Company's gearing ratio (net bank debt excluding lease liabilities / total funds employed) was 7% at 31 December 2021 (31 December 2020: 3%).

The cash conversion rate is forecast to improve significantly in 2H22 in-line with seasonal trends and ongoing pro-active management, leading to further reduction in net bank debt.

Interim Dividend and Capital Management

Given the Company's strong balance sheet, the Board has declared an interim dividend of 3.0 cps fully franked, representing a payout ratio of 87% of underlying profit after tax (2021: 3.5 cps fully franked), with a record date of 1 March 2022 and payable to shareholders on 18 March 2022.

The Company's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

While potential supply chain disruption and adverse economic impacts from COVID-19 persist, the Board has deferred further consideration of capital management initiatives.

Outlook

Given year to date performance and completion of a detailed review of the forecast for the remainder of the year, McPherson's reiterates its stated FY22 sales, underlying PBT and statutory PBT guidance ranges provided on 1 November 2021. These are subject to continued domestic market stability and no material impact from supply chain disruptions. This guidance is restated below.

- Sales growth in the range of 6% to 8% is forecast for the full financial year FY22 (FY21: $200.5 million);
- FY22 underlying profit before tax is expected to be in the range of $1 million to $2 million above FY21 (FY21: $10.1 million), excluding significant non-recurring items; and
- FY22 statutory profit before tax is forecast to be in the range of $1 million to $3 million (FY21: statutory loss before tax of ($4.5 million)).

2H22 underlying profit before tax is projected to be positively impacted by a more favourable FX hedging result and material selling price increases.

The forecast for net bank debt at 30 June 2022 is revised lower to be in the range of $1m to $3m below 30 June 2021, with the FY22 underlying cash conversion forecast revised higher to be in the range of 90% to 100%.

Board changes

As advised on 20 December 2021 Ms. Helen Thornton has been appointed as an independent, non-executive Director of the Board. Helen is a well-respected non-executive director with extensive financial, risk management, audit and governance expertise, aligned with strong strategic capabilities, and leadership and relationship management skills, which complement the existing experience base of the Board.

As previously foreshadowed, following a brief transitional period, Mr. Graham Cubbin has retired from the Board effective 21 February 2022.

Chairman Ari Mervis said: "Graham has made a significant contribution to the Company over the past 11 years as a director, including six years as chairman of the Board. His leadership and guidance have been a fundamental driver of the clarification of the company's strategic direction as a Health, Wellness and Beauty brand owner and provider. Graham leaves with our very best wishes for the future."

Authorisation

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

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About McPherson's Limited

McPherson's, established in 1860, is a leading supplier of Health, Wellness and Beauty products with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care, vitamins, supplements, 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 revenue is primarily derived from its diversified portfolio of owned, market-leading brands, including Manicare, Lady Jayne, Swisspers, Dr. LeWinn's, A'kin, Multix, Fusion Health, Oriental Botanicals, Moosehead and Maseur. McPherson's also manages several brands for agency partners.

For further information on McPherson's business and its strategy and to view the most recent corporation video please refer to the company's website http://www.mcphersons.com.au

Appendix – 1H22 & 1H21 Results Summary

Underlying results	**1H22 ($m)**	**1H21 ($m)**	**Change ($m)**	**Change (%)**
Sales revenue	108.8	101.7	7.1	7%
ANZ underlying EBIT	10.8	11.3	(0.5)	(4%)
Health underlying EBIT	1.3	0.2	1.1	550%
International underlying EBIT	(1.1)	(0.5)	(0.6)	(120%)
Unallocated expenses	(3.8)	(3.5)	(0.3)	(9%)
Underlying EBIT	7.2	7.5	(0.3)	(4%)
Underlying PBT	6.7	7.0	(0.3)	(4%)
Underlying PAT	4.4	4.5	(0.1)	(2%)
Underlying EPS (cents per share)	3.5	4.0	(0.5)	(12%)

Statutory results	**1H22 ($m)**	**1H21 ($m)**	**Change ($m)**	**Change (%)**
Sales revenue	108.8	101.7	7.1	7%
(LBIT) / EBIT *	(2.4)	2.0	(4.4)	(220%)
(LBT) / PBT *	(3.0)	1.4	(4.4)	(307%)
(LAT) / PAT **	(2.1)	1.1	(3.2)	(304%)
(LPS) / EPS (cents per share)	(1.7)	1.0	(2.7)	(270%)

Net Bank Debt and cash flows	**1H22 ($m)**	**1H21 ($m)**	**Change ($m)**	**Change (%)**
Net Bank Debt	8.8	3.8	5.0	132%
Gearing	7.3%	3.0%	(4.3%)	(43%)
Underlying operating cash conversion	48%	67%	(19%)	(28%)

*1H22 Statutory LBIT and LBT includes the following pre-tax significant items: (i) Dr. LeWinn's inventory provision ($9.4) million; (ii) Restructuring costs ($0.4) million; (iii) Regulatory review costs ($0.2) million; and (iv) Reversal of estimated joint venture exit costs $0.4 million.

1H21 Statutory EBIT and PBT includes the following pre-tax significant items: (i) Provision for OzGuard hand sanitisers ($6.1m); (ii) Payments in relation to termination of employment of former Managing Director ($0.7m); (iii) Global Therapeutics acquisition costs ($0.2m); and (iv) Release of contingent consideration in relation to the My Kart joint venture $1.5m.

**1H22 Statutory LAT includes the following after-tax significant items: (i) Dr. LeWinn's inventory provision ($6.6) million; (ii) Restructuring costs ($0.2) million; (iii) Regulatory review costs ($0.2) million; and (iv) Reversal of estimated joint venture exit costs $0.4 million.

1H21 Statutory PAT includes the following after-tax significant items: (i) Provision for OzGuard hand sanitisers ($4.3m); (ii) Payments in relation to termination of employment of former Managing Director ($0.5m); (iii) Global Therapeutics acquisition costs ($0.2m); and (iv) Release of contingent consideration in relation to the My Kart joint venture $1.5m.