



ASX/Media Release
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(ASX: MCP)

McPherson's 2019 Results

(Statutory and Underlying PBT of \$19.0m)

Strategy execution underpins growth in profits and solid cash generation

Highlights

- **Statutory NPAT growth of 165% driven by strong sales in owned brands**
- **Underlying NPAT of \$13.7 million up 35% on the prior comparative period (pcp) for continuing business (excluding discontinued Coty Fine Fragrances distribution)**
- **11% growth in sales revenue from owned brands including record sales revenue growth of 125% in Dr. LeWinn's products driven by both a significant increase in export sales through our strategic and exclusive China partner ABM and strong domestic demand**
- **Strong underlying operating cash conversion of 117% from continuing operations (FY18: 82%)**
- **Positive FY20 outlook with PBT forecast to increase approximately 10%.**

McPherson's Limited ("McPherson's" or "the Group") today announced its final FY19 results, which are consistent with the preliminary results released to the ASX on 23 July 2019. Underlying and statutory profit before tax from continuing operations for the year to 30 June 2019 was \$19.0 million (FY18: \$19.0 million underlying, \$10.9 million statutory), with no significant non-recurring items in FY19.

The Group reported a 7% increase in total sales revenue from continuing operations, excluding Fine Fragrances, to \$210.3 million (FY18: \$196.2 million). The strong result was primarily due to the successful execution of McPherson's strategic business imperatives, resulting in 11% growth in sales revenue from owned brands on pcp, 13% growth in sales revenue from the core six brands and significant export and domestic growth (125%) on pcp from McPherson's key owned brand Dr. LeWinn's.

Directors have declared a final dividend of 6.0 cents per share (cps) fully franked (2018: 2.5 cps fully franked), payable on 26 September 2019 to shareholders on the register at 9 September 2019. The dividend reinvestment plan remains in place. Total ordinary dividends for the year will be 10.0 cps fully franked (2018: 8.5 cps fully franked), representing a payout ratio of 77 per cent, noting that an interim, fully franked special dividend of 2.0 cps was also paid in March 2019. The Group's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

Underlying results from Continuing Operations	FY19 (\$m)	FY18¹ (\$m)	Change (\$m)	Change (%)
Sales revenue	210.3	210.4	(0.1)	0%
Underlying EBIT	19.9	21.6	(1.7)	(8)%
Underlying PBT	19.0	19.0	0.0	0%
Underlying PAT	13.7	12.9	0.8	6%
Underlying EPS (cps)	13.0	12.4	0.6	5%

Underlying results from Continuing Operations Excluding Coty Fine Fragrances distribution	FY19 (\$m)	FY18¹ (\$m)	Change (\$m)	Change (%)
Sales revenue	210.3	196.2	14.1	7%
Underlying EBIT	19.9	18.8	1.1	6%
Underlying PBT	19.0	16.3	2.7	17%
Underlying PAT	13.7	10.2	3.5	35%
Underlying EPS (cps)	13.0	9.8	3.2	33%



Statutory results	FY19 (\$m)	FY18 (\$m)	Change (\$m)	Change (%)
Sales revenue	210.3	255.8	(45.5)	(18)%
EBIT	19.9	15.1	4.8	32%
PBT	19.0	10.9	8.1	73%
PAT	13.7	5.2	8.5	165%
EPS (cps)	13.0	5.0	8.0	160%

Net debt and cash flows	FY19 (\$m)	FY18 (\$m)	Change (\$m/%)	Change (%)
Net Debt	7.5	9.8	(2.3)	(24)%
Net Debt excl. joint venture and Aware investments	1.6	9.8	(8.2)	(83)%
Gearing	7.2%	9.9%	(2.7)%	(27)%
Operating cash conversion (continuing, underlying)	117%	82%	35%	43%

¹ FY18 underlying amounts from continuing operations exclude the following significant non-recurring items and discontinued operations before tax: Home Appliances \$6.2 million expense (primarily \$6.4 million impairment of goodwill) associated with the discontinued operation Home Appliances, \$0.9 million bond buyback costs, \$0.5 million redundancies due to restructuring in continuing operations and \$0.5 million hedge ineffectiveness of interest rate swaps.

McPherson's Managing Director, Mr. Laurence McAllister said: "This strong performance demonstrates how our strategic business initiatives are successfully translating into results. We are particularly pleased with the performance of our owned brands, which helped drive total group sales revenue up 7% on previous year. Of note was the stellar result from Dr. LeWinn's which delivered 125% growth in revenue. We are seeing success with our export strategy, particularly in Asia, and have also made progress in expanding our product range in health, wellness and beauty with three new joint ventures announced.

Our business is in a strong position, with low levels of debt, to continue growing in the 2020 financial year".

Category performance

During the 2019 financial year (FY19), McPherson's generated substantial growth in **skincare, haircare and bodycare brands**, with revenue increasing 75% over the full year to \$40.0 million and growing 86% in 2H19 in comparison with 2H18. This was driven by strong growth in Dr. LeWinn's, in both the domestic and export channels, particularly into China. McPherson's has continued to invest in its research and development (R&D) capability with an increase in the amount invested of approximately 80% in FY19 over the previous year, with over 100 new products developed to support innovations across the business's brands. The rapidly growing mask category in skincare was an area of particular focus and success for the business in FY19, driving strong skincare sales growth in both the domestic and export markets.

Within the **essential beauty** category sales were relatively flat at \$56.9 million, with 2% growth in the Manicare brand offset by a 2% decline in sales of Lady Jayne products and a 7% decline in the Swisspers brand, which is facing competitive pressure from private label products. Successful product innovations in this segment included the new Manicare Sonic Mini facial cleanser, Glam Magnetic eyelashes and a new range of "Little Miss Jayne" hair accessories.

The recently launched Multix "Greener" range continued to achieve strong growth as market leader in the rapidly expanding "sustainables" sub-category, appealing to environmentally conscious consumers. The sustainables sub-category is growing at an annualised rate of 93% and is driving overall growth in the Bags, Wraps and Foils category of 5%. The **household essentials and other**



brands category is dominated by Multix, which is the market leader in most sub-categories. Multix achieved annual growth in sales of 1% in FY19 to \$52.2 million, following 2H18 growth of 11% on pcp. The recently released “Choose Wisely” television campaign has improved brand awareness and strengthened Multix’s brand positioning.

The termination of the Coty agency agreement, effective 31 January 2018, led to a 42.5% decline in revenue from **Agency brands** to \$23.4 million in FY19. Key agency relationships now comprise Eylure and Dr. Wolff.

The divestment of the Home Appliances business was completed on 28 February 2018 with approximately \$29 million in net consideration applied to reduce debt including buying back the remaining \$25 million in Corporate Bonds, and further reducing the company’s borrowing costs. A non-cash, non-recurring impairment of \$6.4 million in goodwill related to Home Appliances was reflected in the FY18 statutory results.

Cash flow and balance sheet

McPherson’s achieved a very strong cash conversion of 117% in FY19 (FY18: 82%) due to a favourable sales mix leading to reduced trade debtors at year end, a reduction in inventory due to termination of the Trilogy agency agreement and strong sales in Q4 of FY19. Net debt reduced by 24% to \$7.5 million at 30 June 2019 from \$9.8 million at 30 June 2018. This reduction in net debt was achieved despite key strategic investments in the Kotia joint venture and the Aware Group totalling \$5.9 million. The company’s gearing ratio (net debt / total funds employed) decreased to 7.2% at 30 June 2019 from 9.9% at 30 June 2018.

New Business Development

A key pillar of McPherson’s group strategy is to explore new product growth platforms via acquisitions, joint ventures and partnerships. McPherson’s recently established a New Business Development team which has actively evaluated over 100 potential new business opportunities in FY19. The Kotia Deer Milk joint venture was the first to be established by the team in November 2018 with New Zealand Deer Cosmetics Ltd (NZDC), a privately owned New Zealand company, to create a unique market offering as the world’s first cosmetic range formulated with pure New Zealand deer milk under the new brand “Kotia”. The Kotia cosmetic range is pioneering a new frontier between natural actives and scientifically proven cosmetics to improve skin health, provide nourishing hydration, protect against environmental pollutants and deliver unique formulations for anti-ageing, skin rejuvenation and brightening. The range is developed by a leading New Zealand skincare specialist, dermatologically tested and appropriately certified with clinical proven performance.

The Sugarbaby joint venture was established in May 2019 to create a unique and strengthened offering in the millennial beauty seekers segment of the market. Established in Melbourne in 1998 by two high profile creative founders, Nicci and Lizie Clifton, Sugarbaby has a rich heritage in colour cosmetics, tanning and skincare product ranges with established sales channels across department stores, pharmacy and e-commerce. Nicci and Lizie have a wealth of experience in developing innovative beauty products and are highly regarded in the industry as being trend setters who are passionate about environmental and social issues. Through the new venture, McPherson’s will leverage its expertise to extend the brand into new segments with an initial focus on innovative and refreshed beauty enhancer products such as masks, lash serums and lip plumpers.

The Soulful joint venture, established in July 2019, is McPherson’s first entry into the Health & Wellness segments. The Soulful product range currently includes Dried Fruit snacks; an Infused Honey range; and Student, Pregnancy and Adult milk powder which are significant international market segments. The adult nutritional drinks market in China alone is forecast to reach \$A1.5 billion by 2023, growing at over 35% annually. The brand also has strong potential within the broader gut health and



digestive market, which is currently sized at approximately \$A0.4 billion domestically, growing at over 5% annually, and sized at \$A3.5 billion in China, growing at over 11% annually.

Strategy Update

At the start of the 2019 financial year, McPherson's released to the market its strategic focus areas for the year ahead, being:

1. Refocus our business purely on Health, Wellness and Beauty.
2. Revitalise our owned McPherson's brands.
3. Improve and maintain financial strength.
4. Move from transactional to strategic partnerships with our top six customers.
5. Integrate and grow acquired skincare brands: Dr. LeWinn's and A'kin.
6. Create a China facing business.
7. Ensure we have our team fit for the future with appropriate expertise, capabilities and values.
8. Turn around performance in New Zealand and Singapore and expand into Asia.
9. Gain efficiencies and savings across the supply chain infrastructure.
10. Create a New Business team focused on M&A and new ventures.

Execution of these strategic imperatives in FY19 has delivered a strong financial result and provides a solid foundation for growth in FY20.

McPherson's also continues to explore additional new business opportunities, including seeking a material merger or acquisition opportunity.

Investment in our R&D and innovation capabilities to fuel future growth also remains a key strategic imperative for the business.

Outlook

Commenting on the outlook, Mr McAllister said: "We are excited about the momentum we are seeing in the business as a result of the various activities we have undertaken through FY19 year to support growth across our brands. This solid momentum has continued into the FY20 year and the Group in a strong position to achieve meaningful growth in earnings in FY20. Consequently, we expect growth in profit before tax of approximately 10% in FY20. This is despite cycling the loss of the Trilogy agency and currency headwinds."

For further information please contact:

Cannings Strategic Communications
Renée Bertuch
+61 409 550 389 or +61 2 8284 9990
rbertuch@cannings.net.au

About McPherson's Limited

McPherson's, established in 1860, is a leading supplier of Health, Wellness and Beauty products in Australasia and increasingly China, with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care 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 manages some significant brands for agency partners and via joint venture arrangements such as Kotia, however, the majority of revenue is derived from the company's diversified portfolio of owned market-leading brands, including Dr. LeWinn's, A'kin, Manicare, Lady Jayne, Swisspers, Multix, Moosehead and Maseur.

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