McPherson's Limited

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McPHERSON'S LIMITED
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Record Result for the year ended 30 June 2011

The year ended 30 June 2011 resulted in the highest net profit after tax ever achieved by the company, exceeding the previous record achieved in 2008 and an increase of 9.3% from 2010, excluding the goodwill impairment charge relating to McPherson's Printing.

The highlights of the results, again excluding the impairment charge, were:-

- Net profit after tax of $28.0 million (up 9.3%)
- Earnings per share of 39.0 cents (up 7.1%)
- Gearing (net debt to shareholders' funds) improved to 28% from 39% in 2010
- Fully franked dividends of 26 cents per share (up 30%)

Sales for the consumer products division were in line with last year, at $289.9 million compared to $289.7 million in 2010. The key brands of Wiltshire, Stanley Rogers, Manicare, Lady Jayne, Multix and Swisspers continue to be the focus of the consumer products division. Growth in revenue from these key brands was largely offset by the continuing range rationalisation programme and lower revenue from impulse merchandising caused by reduced ranging opportunities in some retailers.

Margins improved in most consumer products categories due to business improvement initiatives and the stronger Australian dollar, although the stronger dollar was largely offset by increased product related input costs, particularly labour costs in China and commodity price increases. The consumer products division produced earnings before interest and tax of $48.4 million, 7% up on the previous year's $45.2 million.

McPherson's Printing Group, which produces books and other high quality printed materials, achieved earnings before interest and tax of $2.9 million compared to the previous year's $3.8 million. Revenue fell 8% to $58.9 million, owing to continuing subdued market conditions and competitive pressures. However, McPherson's Printing continued to produce strong cashflows, with cash flow of $6.3 million before capital expenditure. McPherson's Printing continues to invest selectively in modern printing technology with the commissioning during the year of new colour printing equipment and digital inkjet equipment which will be installed in 2011-12.

The Company's overall cashflow was an outstanding feature of the results, with net pre-tax cash inflows of $50.8 million generated from operations compared to $41.8 million last year. The strong cashflow enabled the significant improvement in gearing, with net debt reducing to $56.5 million at the end of 2011 compared to $77.0 million a year earlier, despite funding significant increases in dividends. The gearing level of 28% is considered to be very satisfactory.

The Company has term facilities with its bankers which mature on 31 August 2013, providing flexibility for investment in new ventures and development of existing business.

An interim dividend of 12 cents per share, fully franked, was paid during the year and a final dividend of 14 cents, also fully franked, was paid on 3 October 2011. The total dividend of 26 cents compares to 20 cents last year. It is very pleasing to have been able to increase dividends while still achieving the desired reduction in gearing and borrowings. The Company has sufficient franking credits to ensure future dividends are fully franked, and the policy is to pay out at least 60% of annual net profits as dividends, subject to other funding requirements.

Challenging Outlook for 2012 Financial Year

The current financial year is proving to be challenging. Retail sales are generally subdued and consumer confidence is low, with discretionary retail purchases under pressure as a consequence. Product and operational costs are increasing and competitive pressure is more intense. In addition to the overall weakness of the retail environment, the Company has been affected by adverse ranging decisions by some of its retail customers, including continued pressure on the impulse merchandising sector. The printing business has also been adversely affected by poor market conditions.

As a result, the profit before tax for the full year to 30 June 2012 is expected to be approximately 20% lower than last year.

For the first half year to 31 December 2011, profit before tax is expected to be approximately 30% lower than the previous year as a consequence of both general market conditions and issues affecting the company such as retailer ranging strategies.

The Company is well progressed in strategic developments to offset the challenges of the first half year. The effect of the initiatives under way is expected to improve the trading position in the second half of the financial year such that the result for the half year to 30 June 2012 is anticipated to be in line with the previous corresponding period.

The two fold strategic objectives are to improve operational efficiency, while generating additional growth through product, brand and channel development. Some of the projects which are under way are as follows:

- Broadening distribution of successful recent launches such as hair extensions and seeking new opportunities for impulse merchandising products;
- New and improved products being released this year under Manicare, Lady Jayne, Multix, Swisspers and Wiltshire;
- IT and supply chain initiatives including RF (radio frequency) development to further automate the Kingsgrove warehouse;
- Extensive training and management development programmes for all key staff, assisting them to achieve personal goals and corporate objectives.

The Company also continues to be extremely active in searching for suitable acquisition targets to develop its core strategy of expansion in consumer products categories. The strong balance sheet and continued positive cashflows mean the Company is well placed to consider appropriate acquisitions.

Proposed Demerger of McPherson’s Printing Group

The comments regarding expected results for the current financial year exclude the effect of a major proposal which the Company is currently preparing. This is the establishment of McPherson’s Printing Group as a separate company, which is proposed to be listed on the ASX. A detailed proposal for the demerger is expected to be presented to shareholders in early December, to be considered at a general meeting of shareholders in January 2012. This proposal is an exciting development for McPherson’s, intended to achieve two valuable objectives:

- McPherson’s becoming a company focussing exclusively on consumer products;
- McPherson’s Printing Group, as an independent business, having opportunities to utilise its traditionally strong cashflows to develop its own business as well as potentially creating an enhanced business services and communications solutions group by acquisition.

The demerger is proposed to be by way of a demerger distribution, which would be satisfied by the transfer of shares in McPherson’s Printing Group to McPherson’s shareholders in the same proportion as their existing McPherson’s shareholdings.

Subject to regulatory approval and McPherson’s shareholders approving the demerger and McPherson’s Printing Group therefore becoming an independent entity, a conditional contract has been entered into whereby the demerged McPherson’s Printing Group would acquire the OPUS Group to create a substantial business services group with operations in Australia, New Zealand and Singapore. However, the proposed demerger of McPherson’s Printing Group is not conditional on the subsequent OPUS proposal occurring.

The proposed acquisition of the OPUS Group would be subject to the approval of McPherson’s Printing Group shareholders at a general meeting anticipated to take place in March 2012 and in that regard full details are anticipated to be provided to McPherson’s Printing Group shareholders in February 2012. The acquisition of OPUS would be primarily by way of an issue of shares in McPherson’s Printing Group to the shareholders of OPUS. It is anticipated that McPherson’s shareholders would own approximately 30% of the combined group after the acquisition.

The OPUS Group, which is privately owned and headquartered in Sydney, derives over 50% of its revenues from sources other than traditional print such as business services, digital and electronic delivery. OPUS has grown rapidly over the last 4 years and together with McPherson's Printing Group would be a regional powerhouse among the world's emerging content delivery and content solutions businesses.

The proposed demerger and the OPUS proposal are exciting opportunities which McPherson’s believes would generate substantial additional value to shareholders on implementation.

Directors and Management

This is a year of some changes to McPherson’s board of directors and management. We have implemented a diversity policy and have a strong commitment to development of women in management and directorship roles. I am pleased to say that at a recent management presentation day, six of the eleven managers presenting to the board were female. I am pleased to welcome Amanda Lacaze as a new director, bringing valuable and relevant experience to the board. We say farewell to Peter Landos, who has served as a director or alternate director of McPherson's for more than eight years and we thank him for his contribution to McPherson's over that time.

We also say farewell to Phil Bennett and to the other members of McPherson's Melbourne based corporate team. After a career with the company spanning twenty years, including eleven as chief financial officer and sixteen as company secretary, Phil will be stepping down from these positions at the end of this month. Paul Witheridge, who has been chief financial officer of McPherson's Consumer Products based in Sydney since May 2010, will be appointed to both positions.

This is also my last AGM as I am retiring from McPherson's Limited. I would like to thank my fellow directors for their support over the past eight years and particularly to thank Paul Maguire and all the management and staff of McPherson's for their outstanding commitment to our company in a very challenging environment. My association with McPherson's will not finish however as I will become a director of McPherson's Printing Group as it transitions to an independent entity.

I am also very pleased to pass the role of chairman to David Allman. David's understanding of the business and the retail environment are unrivalled and I could not be leaving the company in safer hands.