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McPherson’s 1H2014 Underlying NPAT $10.2[1] million

(Statutory loss of $70.5 million)

- **Sales 18% above pcp**
- **Underlying NPAT[1] 2% below pcp**
- **Interim dividend of 6 cents per share fully franked**
- **Channel diversification achieved through high performing acquisitions**
- **Transformation accelerating in response to challenging market conditions**

McPherson’s Limited, the consumer products company, today announced an underlying after-tax profit of $10.2[1] million (before the non-cash impairment of intangibles and other non-recurring items noted on page 3) for the six months to 31 December 2013, as anticipated in an announcement on 28 January 2014. This compares with $10.4 million for the previous corresponding period. The company’s statutory result was an after-tax loss of $70.5 million, due to a $79.5 million after-tax non-cash impairment of intangible assets (comprising $1.2 million of brands and $78.3 million of goodwill) and other non-recurring items noted on page 3.

Sales revenue increased by 17.9% to $180.6 million, with like-for-like sales in line with the previous corresponding period and the increase attributable to acquisitions.

Directors have declared an interim dividend of 6 cents per share fully franked, representing a payout ratio of 55% of underlying net profit after tax. The dividend is payable on 10 April 2014 to shareholders on the register at 24 March 2014. The dividend re-investment plan remains in place with a discount of 2.5%.

Results summary for six months ended	**31 Dec 12 ($ million)**	**31 Dec 13 ($ million)**	**Change (%)**
Sales revenue	153.2	180.6	17.9
EBITDA (excluding non-recurring items)	19.3	19.0	(1.3)
Underlying EBIT[1]	**17.9**	**17.5**	**(2.3)**
Underlying profit before tax[1]	14.7	14.2	(3.7)
Underlying profit after tax[1]	**10.4**	**10.2**	**(1.9)**
Statutory profit/(loss) before tax	15.3	**(67.5)**	
Statutory profit/(loss) after tax	**10.9**	**(70.5)**	
Underlying earnings per share (cents)[1]	14.3	11.2	(21.7)
Statutory earnings/(loss) per share (cents)	15.0	(77.9)	
Interim dividend (cents - fully franked)	10.0	6.0	(40.0)

[1] These EBIT, NPBT, NPAT and EPS figures exclude the impact of the $80.0m before tax ($79.5m after tax) non-cash impairment of intangibles in the six months ended 31 December 2013 and the other non-recurring items noted on page 3.

Paul Maguire, Managing Director, said: ‘This result reflects the challenging market conditions being faced by the company. Although revenue remained strong in the first half, margins in parts of the business suffered due to a subdued retail sales environment, the requirement to increase promotional spend, increases in product costs in part due to depreciation of the AUD/USD, and some customers placing a greater emphasis on private label product ranges.

‘In response to these issues, the business successfully implemented a range of restructuring and streamlining initiatives during the first half, in conjunction with implementing selling price increases wherever possible. Nonetheless, these pressures continued to significantly impact performance, particularly in the housewares and household consumables businesses.

‘To mitigate the impact of these challenges, our strategy is to substantially transform the company through appropriate acquisitions and divestments, channel expansion and the establishment of new agency relationships; to diversify away from margin constrained channels and to increase participation in channels with greater profit and growth potential. To this end, we have identified, acquired and successfully integrated six earnings per share accretive businesses over the past two years, delivering the anticipated synergy benefits and providing growth through expansion within more profitable channels.

‘The process of company transformation is accelerating, with two significant acquisitions completed as recently as 31 October 2013, broadening our brand portfolio, delivering further channel diversification and providing the opportunity to deliver strong returns through leveraging the company’s infrastructure. The major cosmetic skincare brand Dr LeWinn’s and beauty treatment brand Revitanail have boosted our presence in the health & beauty sector; and the Think Appliances business and the Baumatic brand have considerably expanded our existing home appliance business.

‘We are announcing today the divestment of our Crown glassware business, marking McPherson’s exit from the lower margin foodservice channel in Australia. This is in line with our commitment to diversify away from less profitable channels and focus on growth initiatives in more profitable channels, particularly those serviced by our health & beauty and home appliance businesses.’

Category performance

McPherson’s **health & beauty** division was strengthened during the half with the acquisition of the Maseur footwear brand in July 2013 and, as mentioned above, the Dr LeWinn’s and Revitanail beauty brands in October 2013. These products are primarily distributed in the higher margin pharmacy channel, which is serviced directly from McPherson’s sophisticated ‘pick to light’ distribution centre in NSW and well supported by a large national team of pharmacy sales professionals. Excluding these acquisitions, the core health & beauty business’ revenue grew by 1% for the half, reflecting the ongoing strength of the company’s portfolio of market leading health & beauty brands.

The acquisition of Home Appliances in March 2013 provided significant channel diversification. The more recent acquisition of Think Appliances and the Baumatic brand in October 2013 has lifted annual revenue in the **home appliance** division by approximately $30 million. Excluding acquisitions, home appliance revenue grew by approximately 16% for the half as a result of new product launches in the retail and commercial channels.

Revenue from **housewares** products, marketed under the Wiltshire, Stanley Rogers, Furi and a number of agency brands, was 8% above the previous corresponding period due to new product introductions and clearance activity to optimise product ranges.

Sales of **household consumables**, mainly sold under the market-leading Multix brand, were 5% below the previous corresponding period as a result of retailer ranging initiatives, and sales of **impulse merchandise** were lower due to the net effect of distribution changes.

Cash flow, balance sheet and hedging

Operating cash inflow before interest and tax was $8.4 million (pcp: $8.2 million). Capital expenditure was marginally below depreciation.

Net debt at 31 December 2013 was $91.7 million compared with $69.6 million at 30 June 2013, with the increase primarily due to acquisitions in the half. The gearing ratio (net debt to total funds employed) was 48.3% (inclusive of the $79.5 million after-tax impairment of intangible assets) compared with 29.2% at 30 June 2013. Strong support from the company's lenders has been maintained, with the Gearing Ratio covenant being increased from 40% to 55%.

The company's foreign exchange hedging policy remains unchanged. Estimated US dollar requirements are hedged eight months forward on a rolling basis, utilising options, foreign exchange contracts and collars.

Non-recurring items

In addition to the intangibles impairment charge, the company's statutory results include the following non-recurring items before tax:

(i) for the six months ended 31 December 2013, restructuring costs of $1.1 million and acquisition costs of $0.6 million; and
(ii) for the six months ended 31 December 2012, the write-back of a contingency consideration of $0.6 million related to an acquisition, and acquisition costs of $0.1 million.

Outlook

Mr Maguire said: 'Trading conditions are expected to remain challenging; with full year underlying EBIT and NPAT anticipated to be approximately in line with prior year and EPS 15% below due to the recent issuance of equity to fund acquisitions. The health & beauty and home appliance businesses are expected to continue to perform strongly, and we are pursuing initiatives to increase profitability in the housewares and household consumables businesses, where cost increases and competitive pressures have impacted the most.

'In response to product cost increases and the recent weakness in the Australian dollar, we are continuing the process of re-setting our pricing structure. We are also reviewing the profitability of all business units, brands and products with the aim of further 'right-sizing' our operations, thereby releasing cash for investment in accretive acquisitions and improving our return on funds employed.

'Our upgraded IT system will be rolled out internationally, enhancing productivity and assisting in reducing overheads, and we will continue to pursue additional growth opportunities through new agency agreements, further product innovation, growth in international sales and complementary acquisitions.'

About McPherson's

McPherson's, established in 1860, is a leading supplier of health & beauty, consumer durable and household consumable products in Australasia, with operations in Australia, New Zealand and Asia. The health & beauty division markets and distributes beauty care, hair care and skin care product ranges; the consumer durables division markets and distributes large appliances such as cooktops, ovens, washing machines and dishwashers, as well as housewares products such as cutlery, knives, bakeware and cookware; and the household consumables division markets and distributes kitchen essentials such as plastic bags, baking paper, cling wrap and aluminium foil.

McPherson's manages some significant brands for overseas agency partners; however, the majority of revenue is derived from the company's diversified portfolio of owned market-leading brands, including Manicare, Lady Jayne, Dr LeWinn's, Swisspers, Moosehead, Maseur, Euromaid, Baumatic, Wiltshire, Stanley Rogers and Multix.

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