

McPherson's Limited Full Year Results Release Financial Year 2016

Paul Maguire – Managing Director

Paul Witheridge – Chief Financial Officer

22 August 2016



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MCPHERSON'S

MCP FY2016 - Financial Overview

Underlying Results*

Revenue (Comparable)
\$312.6m

↓ 1.3%

Brand consolidation – fewer, bigger brands
Range rationalisation – exiting of lower margin product ranges

EBIT
\$25.7m

↑ 14.2%

Improvement in revenue quality
Growth despite significant AUD devaluation

NPAT
\$13.4m

↑ 12.3%

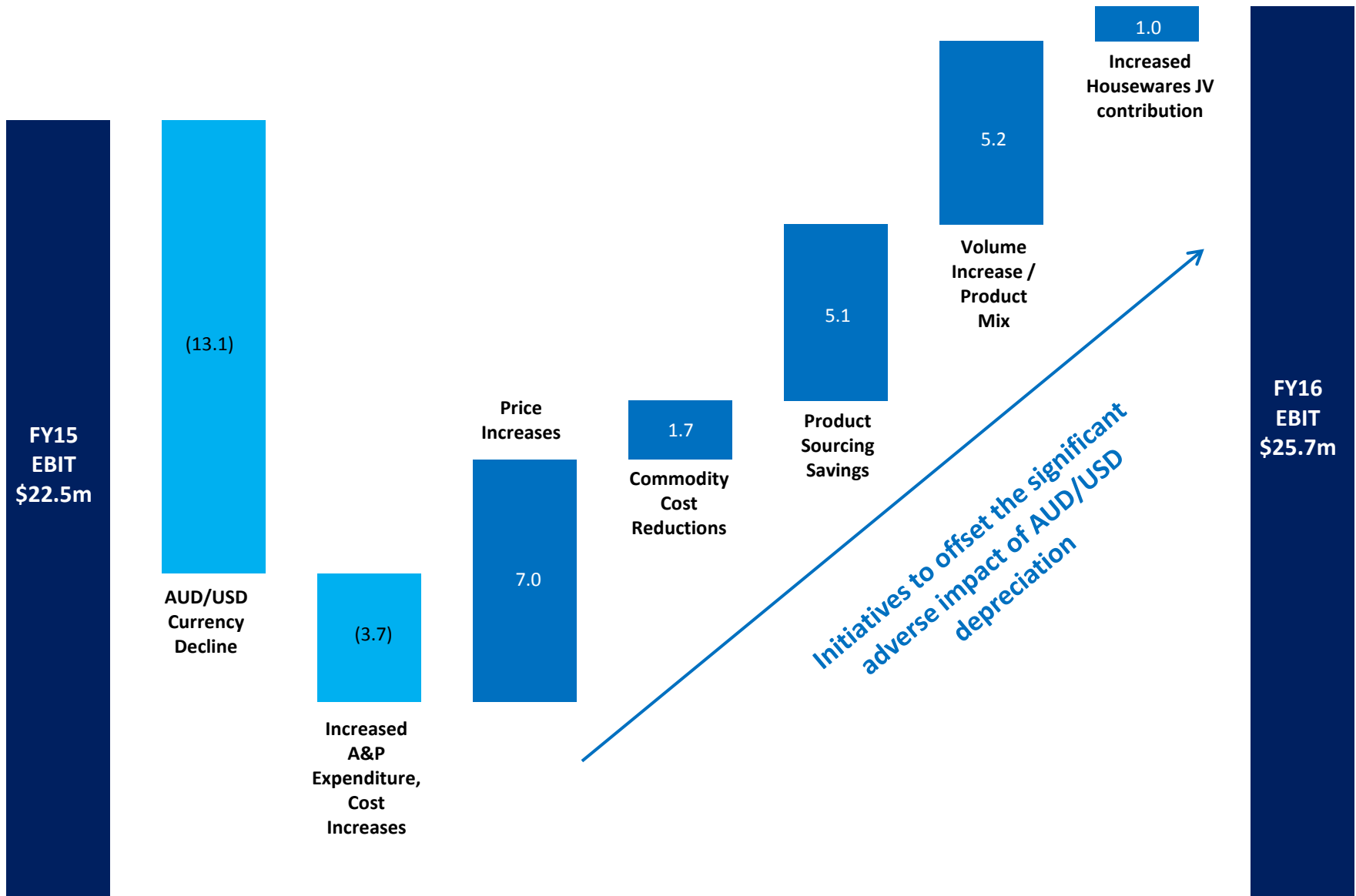
EPS
13.6cps

↑ 9.7%

* Underlying amounts exclude the significant non-recurring items outlined on Slide 4



Summary Bridge of Growth in Underlying EBIT FY15 to FY16 (\$m)



MCP FY2016 Financial Overview – Significant Items

Significant Items A\$m	FY2016	FY2015
Profit from divestment of Housewares	2.0	-
Inventory rationalisation and restructuring costs	(4.4)	(4.1)
Closure of Impulse Merchandising Division	(1.4)	-
Bond buyback cost	(0.3)	-
Legal and acquisition costs	(0.2)	(0.4)
Interest rate swap termination loss	-	(2.0)
Impairment of intangible assets	-	(0.6)
Contingent consideration adjustment	-	2.0
Total Significant Items before Tax	(4.3)	(5.1)
Tax benefit on Significant Items	1.9	2.0
Total Significant Items After Tax	(2.4)	(3.1)



MCP FY2016 - Financial Overview

Underlying Cash Conversion* 118%		\$34.2m operating cash flow before interest and tax payments
Net Debt \$49.9m	↓ 35.4%	Improvement in receivables and inventory profile
Gearing 32.0%	↓ 12.0pp	\$8.8m inflow from divestment net of investments
ROFE 15.9%	↑ 3.2pp	Improved underlying EBIT, 10.8% or \$16.3m reduction in total funds employed

* Normalised to exclude Housewares JV impact on earnings and working capital reduction



MCP FY2016 - Financial Overview

Normalised EBIT Interest Cover*
4.5 times

↑ 0.8 times

EBIT* / Interest*

Normalised leverage Ratio*
1.9 times

↓ 1.2 times

Net Debt / EBITDA*

- ⌘ Final dividend of 2.0 cents per share fully franked
- ⌘ Total dividend of 8.0 cents per share fully franked
 - ❄ Payout ratio of 59% of underlying EPS
 - ❄ Payment date 8 November 2016
 - ❄ Dividend Reinvestment Plan (DRP) retained

* Underlying EBIT and EBITDA exclude Housewares contribution.
Interest normalised for full year impact of Housewares divestment proceeds.



Strategy Update

Paul Maguire
Managing Director



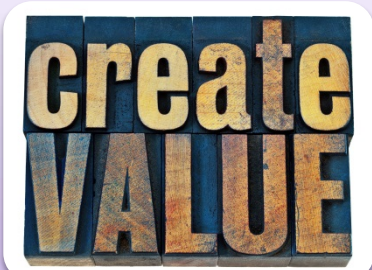
McPherson's makeover



*McPherson's is a **consumer centric** organisation committed to providing consumers with innovative, high quality branded products that improve their lives*








*McPherson's has substantially **transformed** through acquisition & divestment and the establishment of meaningful agency partnerships; participating in **more profitable** categories and channels with market leading brands*



*McPherson's '**makeover**' has lead to channel diversification, brand consolidation, cost rationalisation, a strengthened balance sheet and an emphasis on **creating value** for shareholders*

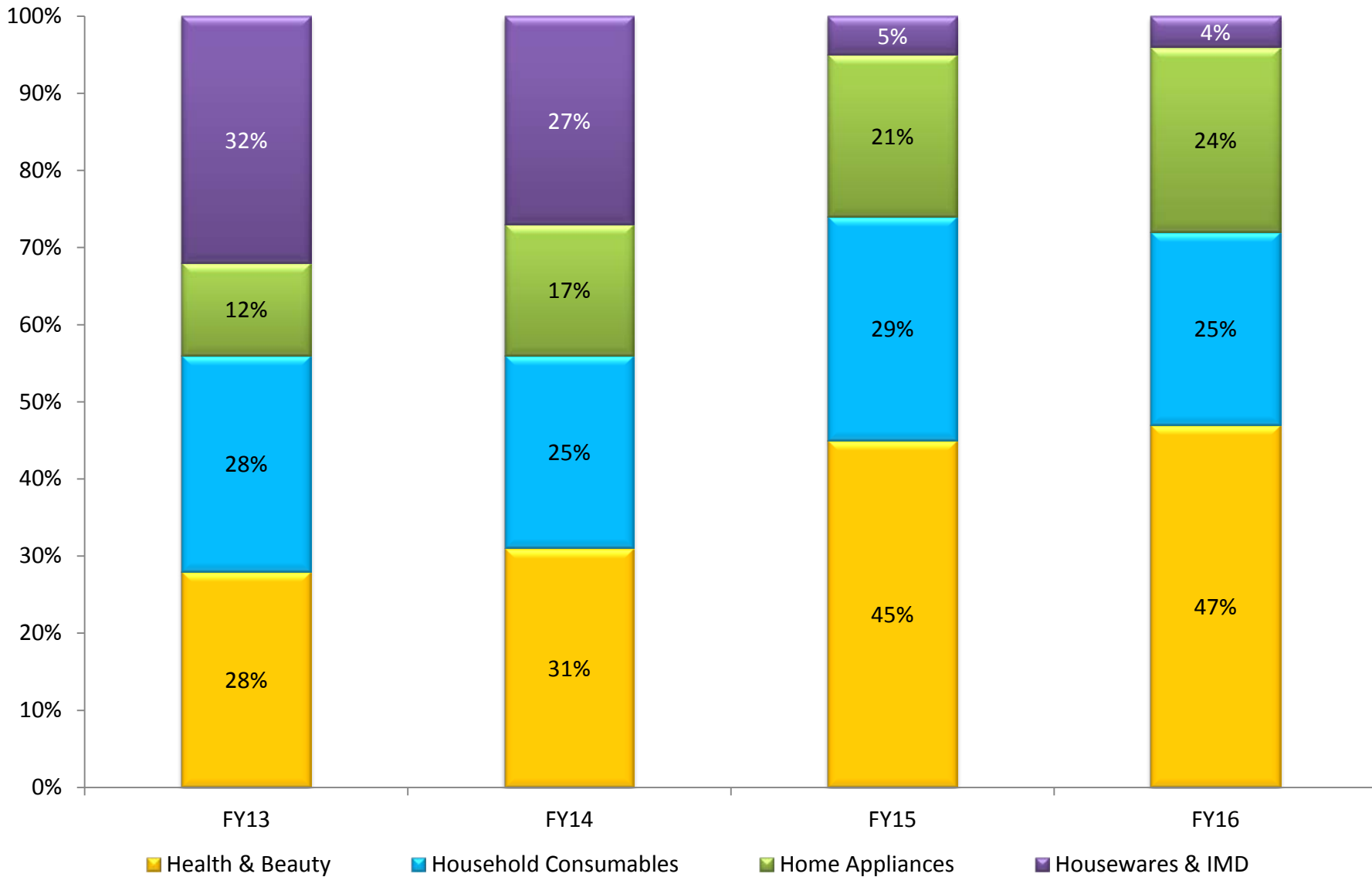
Divisional revenue summary (Aus & NZ)*

		SHARE OF REVENUE FY2016	REVENUE GROWTH FY16 vs FY15	REASONS	OUTLOOK
HEALTH & BEAUTY	 [A'kin] 	47%	3%	Growth despite a program of brand consolidation & range rationalisation	Growth in revenue and profit
HOME APPLIANCES	 	24%	13%	New products & new ranging	Growth in revenue (excl' Masters) and Profit
HOUSEHOLD CONSUMABLES	 <small>Inspiring Professional Results</small>	25%	(15%)	Multix branded sales in line with prior year, market leadership held. Overall decline due to exiting some private label agreements	Consistent sales and improved profitability
IMPULSE MERCHANDISING (IMD) / PET		4%	(19%)	IMD sales growth, pet products exited	IMD exited July 2016

* Revenue summary excludes Housewares due to the divestment of the remaining 49% of the Housewares division effective 31 March 2016

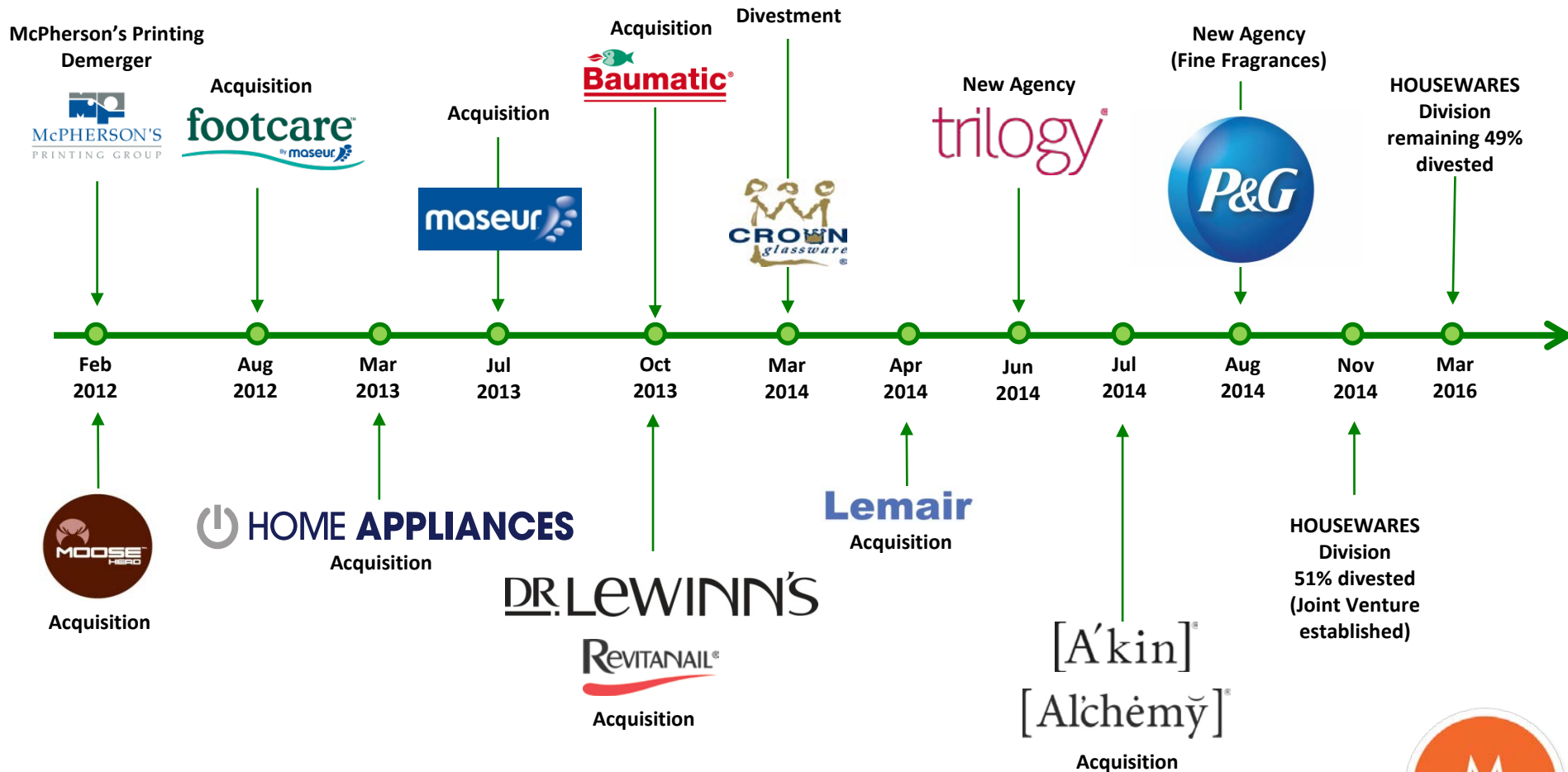


Percentage of revenue by division

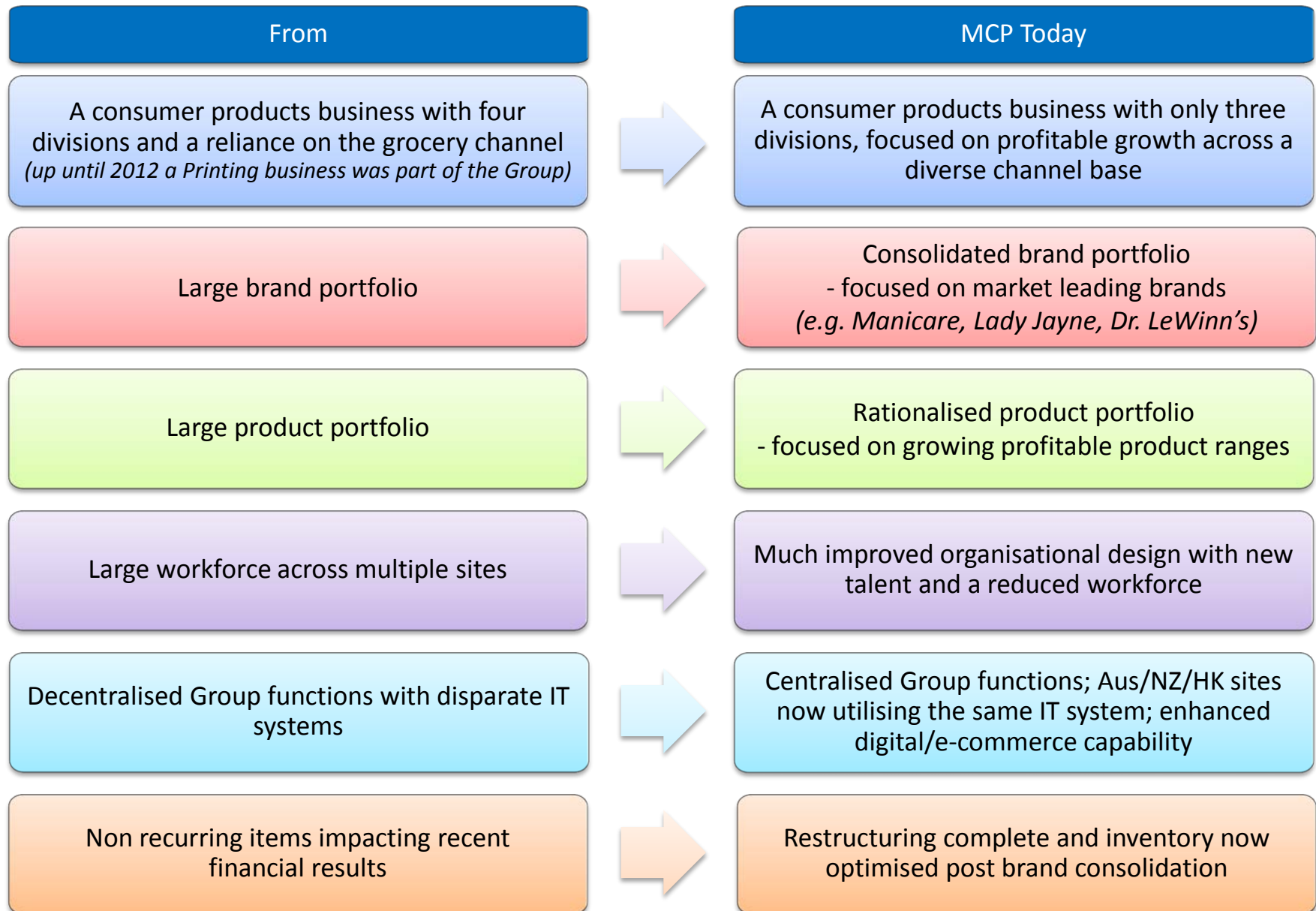


McPherson's transformation timeline

Diversification achieved through acquisitions, divestments and new agencies

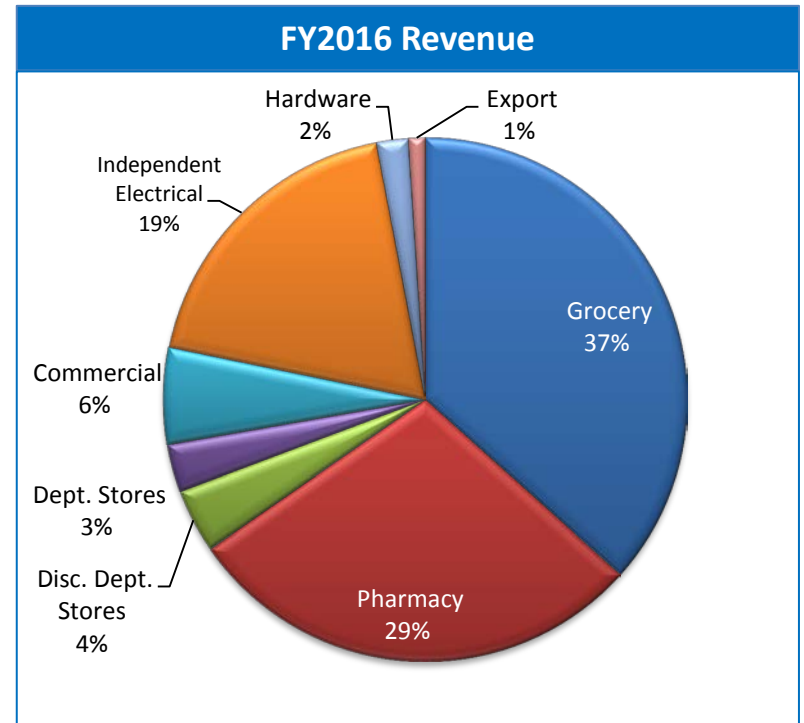
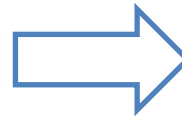
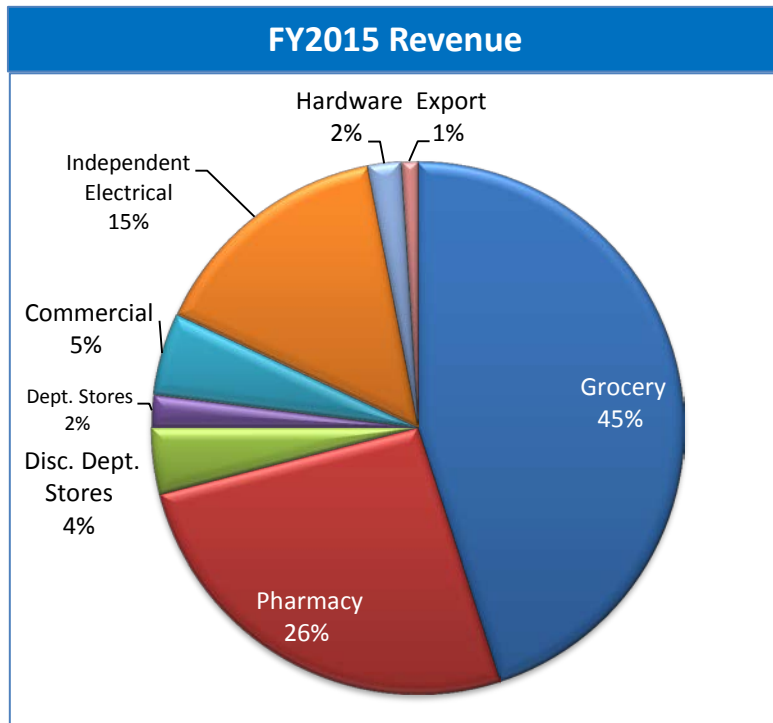


McPherson's - repositioned for growth



Business transformation outcomes

- ⌘ Lessened exposure to foreign exchange (*FY16 USD purchases 62% of total*)
- ⌘ A more profitable channel and customer mix



Business transformation progress



Brands



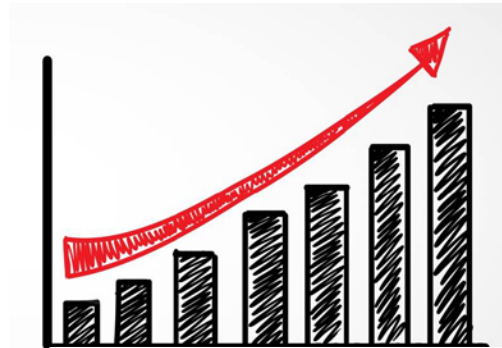
Partnerships



New Products



New Markets



Performance Improvement



Divestment



Beauty Essentials

Priority



⌘ Manicare beauty tools



⌘ Lady Jayne hair accessories



- ❄ Market leading heritage brands
- ❄ Powerful brands with mass distribution
- ❄ Growth through new products and channel expansion
- ❄ Advertising investment from Oct 2016



Advanced Beauty

DR. LEWINN'S

- ⌘ Dr. LeWinn's cosmeceutical skincare
 - ❄ New formulations and packaging
 - ❄ Innovative new products
 - ❄ Growth through channel and market expansion
 - ❄ Significant advertising investment throughout FY2017 to deliver growth



New Brand Communication

DR. LEWINN'S

- ⌘ **\$2.5 million** advertising spend in FY2017
 - ❄ Increasing brand awareness
 - ❄ Increasing product trial
 - ❄ Strengthening consumer engagement



TV & Print (Appointment Viewing)	Out of Home (Store proximity)	DIGITAL (Always On)	SOCIAL & INFLUENCERS (Always On)
TOP OF MIND BRAND AWARENESS	BRAND AWARENESS & FREQUENCY	BRAND AWARENESS & APPRAISAL	ADVOCACY



The new face of DR. LEWINN'S



Actress, Anna Bamford, appointed **brand ambassador** August 2016

- ❄ Best known for her role in hit TV show 'Wonderland', for which Anna received a Logie Award nomination for Most Outstanding Newcomer
- ❄ Recently on-stage at the prestigious Sydney Theatre Company alongside Cate Blanchett in 'The Present'
- ❄ In the coming months Anna will appear on Home & Away





Natural Beauty



- ⌘ A'kin natural skincare & haircare
 - ❄ New packaging Oct 2016
 - ❄ New products Oct 2016
 - ❄ Growth through channel and market expansion
 - ❄ Significant advertising investment to deliver growth in 2HFY2017

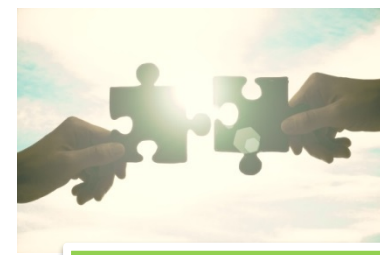
A'KIN OILS

— *discover* —

THE DIFFERENCE



Natural Beauty - agency partnership



Partnerships

Successful partnership continues with Trilogy natural skincare



trilogy®



Prestige Beauty - agency partnership

- ⌘ Successful partnership continues with P&G Fine Fragrances
- ⌘ Dolce&Gabbana fragrances to be exited October 2016 due to P&G selling the brand licence



Partnerships



New product development

⌘ Pipeline of innovative new products across all divisions



New Products

Limited Edition
Pastels



Metallics



New market development



New Markets



- China expansion opportunity evaluated for Dr. LeWinn's skincare and A'kin skincare & haircare
- Chinese consumer research conducted and 'hero' products identified
- Multi-channel approach to distribution
- Communications plan commencing Sep 2016



Expansion plans for New Zealand



Expansion plans for Singapore



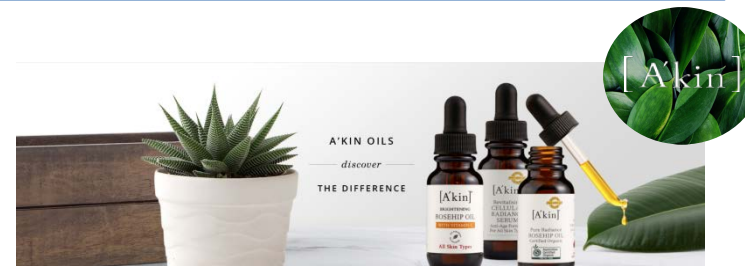
Distributor appointed in United Kingdom



Distributor appointed in Korea



DR. LEWINN'S



Channel development - digital transformation



Digital transformation is technology enabling innovation, creativity, and growth

Driven by our strategic objectives as well as consumer expectations



McPherson's Health & Beauty is now e-commerce capable, with Demandware our chosen technology platform

 demandware
move faster, grow faster.



Digital and e-commerce benefits



Digital technology allows us to sell across multiple online retailers and territories and gives consumers **greater access to products**



Digital content helps build more **meaningful consumer relationships** and facilitates different ways of marketing



Content syndication builds **stronger retailer partnerships**



Consumer and customer **data capture** from multiple sources



E-commerce leverages McPherson's existing capabilities (e.g. the 'pick to light' distribution centre in Sydney)

>\$12 million profit benefit in FY16 from:



Performance Improvement

Price increases



Organisational re-design and operational initiatives



Product cost savings



Technology improvements



McPherson's Housewares



- ⌘ 51% of 'McPherson's Housewares' divested to FACKELMANN (Germany) Nov 2014, establishing a joint venture
- ⌘ Remaining 49% share divested to FACKELMANN, effective 31 March 2016, reducing McPherson's debt by \$20 million
- ⌘ Divestment part of McPherson's transformation program, benefiting customer & channel mix



Füri®



 **Stanley Rogers**



wiltshire®

A magnifying glass with a blue handle and silver frame is positioned over the year 2017. The year is written in large, bold, red font. The magnifying glass is tilted, and its lens is focused on the year. The background is a light gray gradient with some lens flare effects.

2017

Outlook



Health & Beauty division

Current Status

- ⌘ Revenue 3% ahead of prior year
- ⌘ Significant brand consolidation and product range rationalisation now complete
- ⌘ Successful new products under trusted brands boosting McPherson's presence in Beauty
- ⌘ Closure of Impulse Merchandising business

Outlook

- ⌘ Focused on growth in Essential Beauty, Advanced Beauty and Natural Beauty products
- ⌘ Continued growth through:
 - ⌘ new product development
 - ⌘ substantial advertising investment
 - ⌘ international expansion
- ⌘ Profitability boosted by operational initiatives, organisational re-design and price increases
- ⌘ E-commerce capability leveraged
- ⌘ Grocery-oriented Personal Care brands (e.g. Swisspers & Moosehead) transferred to the Household Consumables division, establishing new 'Household & Personal Care' division

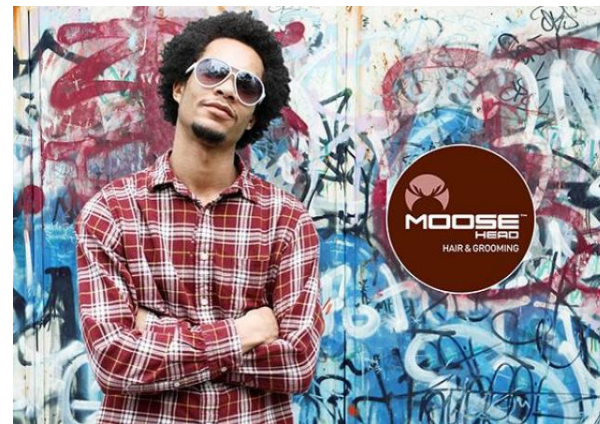
Household & Personal Care division

Current Status

- ⌘ 'Household & Personal Care' division established July 2016 to leverage Grocery channel expertise
- ⌘ Market leadership maintained by Multix, Swisspers and Moosehead in FY2016
- ⌘ Profit impacted by:
 - ⌘ Unfavourable effect of weak AUD
 - ⌘ Delayed acceptance of price increases
 - ⌘ Increased 'promotional support' required by retailers
 - ⌘ Favourable lower commodity prices

Outlook

- ⌘ Market leadership maintained
- ⌘ Reduced private label involvement
- ⌘ Favourable impact of price increases, new products, sourcing initiatives and easing commodity prices



swisspers



Home Appliances division

Current Status

- ⌘ Excellent customer and supplier network
- ⌘ New products launched
- ⌘ Commercial building approvals strong
- ⌘ Revenue up 13% but Masters demise adversely affected sales and profit
- ⌘ Margins adversely affected by weak AUD

Outlook

- ⌘ Initiatives to offset weak AUD and Masters impact:
 - ❄ Price increases
 - ❄ Growth from recent new ranging
 - ❄ Building approvals benefiting commercial
 - ❄ Supplier consolidation delivering lower product costs
 - ❄ Supply chain savings
 - ❄ Savings from Service Centre efficiencies



Summary

Significant growth in underlying earnings achieved despite currency headwinds

Substantial reduction in debt and gearing

Emphasis on growing our more profitable, market leading brands

FY2017 to benefit from retail price increases, reduced operational expenditure, sourcing savings, operational initiatives, new products and channel & market expansion

Home Appliances to benefit from supplier consolidation, operational initiatives and new products launched during FY2016 & 1H2017

Household & Personal Care to leverage Grocery channel expertise and benefit from price increases, new products, sourcing initiatives and lower commodity prices

Health & Beauty to benefit from growth in owned brands both locally and overseas, strong beauty agency partnerships and boosted digital capability



China Deployment Strategy

Daigou ("buy on behalf of")

Daigou vary in size from individuals to 'traders'

Daigou typically buy from:
CWH, Coles/WW, API/Priceline

Daigou buy on special (e.g. ½ price) or in bulk and consolidate stock



Export to friends & family
Traders sell via their 'Gift Shop' or to smaller 'Gift Shops'
Sell on-line (e.g. Taobao, WeChat)

Pharmacy Exporters (CBEC)

Pharmacy exporters sell to
Buying Groups /
Buying Agents



Products sold in China
via affiliate
e-commerce retail
networks/shopfronts

E-commerce Shopfronts (CBEC)



Chinese Consumers

(Demand is driven via e.g. WeChat, validation via e.g. Baidu)

Appendix
McPherson's Limited
Financial Performance
for the Year Ended 30 June 2016

Paul Witheridge
Chief Financial Officer



Group Financial Summary for FY2016

Underlying (i.e. excluding significant non-recurring items)

	June 2016 (\$A million)	June 2015 (\$A million)	
Sales	312.6	349.1	10.5% Sales decrease
EBITDA	28.5	25.2	13.3% EBITDA increase
Depreciation & amortisation	(2.8)	(2.7)	
EBIT	25.7	22.5	14.2% EBIT increase
Interest	(6.8)	(6.1)	Interest cover 3.8 times
PBT	18.9	16.4	15.4% PBT increase
Tax	(5.5)	(4.4)	
PAT	13.4	12.0	12.3% PAT increase
Operating cash flow (before interest and tax)	34.2	19.5	75% increase in operating cashflow
EPS excluding non-recurring items (cents)	13.6	12.4	9.7% increase
Total dividend (cents – fully franked)	8.0	8.0	



Group Financial Summary for FY2016

Statutory (i.e. including significant non-recurring items)

	June 2016 (\$A million)	June 2015 (\$A million)
PBT excluding non-recurring items	18.9	16.4
Non-recurring items as outlined in presentation	(4.3)	(5.2)
Statutory PBT	14.6	11.2
Income tax expense	(3.6)	(2.4)
Statutory PAT	11.0	8.8
Statutory EPS (cents per share)	11.1	9.2



Overview of Group Balance Sheet

	June 2016 (\$A million)	June 2015 (\$A million)
Inventories	59.8	57.8
Receivables	44.8	55.0
Assets held for sale (inventories)	-	19.7
Payables	(48.8)	(60.4)
Net working capital	55.8	72.1
Property, plant & equipment	5.8	5.5
Investments (49% of Housewares Australia, Singapore and Hong Kong)	-	8.8
Non-current receivables	-	2.6
Intangibles	115.1	89.4
Other assets held for sale	-	17.8
Provisions & other net liabilities	(15.3)	(18.5)
Total funds employed	161.4	177.7
Net financial debt	(49.9)	(77.2)
Net tax balances	(7.0)	(1.8)
Shareholders' funds	104.5	98.7
Gearing [Net debt / (Net debt + Shareholders' funds)]	32.3%	43.9%
ROFE (Underlying EBIT / Total funds employed)	15.9%	12.7%
ROSF (Underlying PAT / Shareholders' funds)	12.9%	12.2%



Group Operating Cash Flows

	June 2016 (\$A million)	June 2015 (\$A million)
Cash flows from operations		
Receipts from customers (inclusive of GST)	354.7	382.8
Payments to suppliers and employees (inclusive of GST)	320.5	(363.3)
Net cash inflows from operations before interest and tax	34.2	19.5
Net interest and borrowing costs paid	(6.3)	(8.5)
Income tax paid	(3.0)	(4.0)
Net cash inflows from operations	24.9	7.0



Group Investing and Financing Cash Flows

	June 2016 (\$A million)	June 2015 (\$A million)
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(2.9)	(2.0)
Payments for acquisition of business assets	(8.5)	(8.1)
Payments for purchase of intangibles	(1.0)	(1.4)
Proceeds from sale of business assets	18.3	8.5
Net cash outflows from investing activities	5.9	(3.0)
Cash flows from financing activities		
Net proceeds from (repayment of) borrowings	(12.9)	11.8
Payback of bonds	(10.0)	-
Dividends paid (net of DRP participation)	(2.9)	(8.4)
Net cash inflows from financing activities	(25.8)	3.4
Net increase in cash held	5.0	7.4



FX Hedging (Australia)

Comprehensive FX hedging program in place using Options, Forward Exchange Contracts (FEC's) and Collars:

Options	Protect downside with premium cost but allow upside benefit
FEC's	Fixed rate with lost forward points
Collar	Improved downside protection in exchange for limiting upside

Current Policy

- ⌘ Hedge 12 months forward on a rolling basis for 100% of USD and Euro purchases for certain customers
- ⌘ For all other purchases, hedge 8 months forward on a rolling basis for 100% of USD and Euro requirements
- ⌘ Options to comprise at least 50% of USD requirements. Options, FEC's and tunnel collars to be used for remaining 50% of USD requirements
- ⌘ FEC's placed covering:
 - ❄ Next 30 days where strike is 8% above the protected rate; and
 - ❄ Next 31 to 90 days where strike is 10% above the protected rate



McPherson's Limited

Non-IFRS measures

The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.

Disclaimer

Statements contained in this presentation, particularly those regarding possible or assumed future performance, estimated company earnings, potential growth of the company, industry growth or other trend projections are or may be forward looking statements. Such statements relate to future events and expectations and therefore involve risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward looking statements.

