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ASX/Media Release **(ASX: MCP)**

18 June 2013

Market Update

Over the past eighteen months McPherson's Limited has been undergoing a process of transformation to a business with a more diversified channel and customer base. This process commenced with the demerger of McPherson's Printing Group in January 2012, followed by the successful acquisition and integration of three businesses (Cosmex in January 2012, Footcare International in August 2012 and Home Appliances in March 2013 - all of which are exceeding expectations). This has been further complemented by the successful implementation of a number of operational initiatives; such as the upgrading of the Company's IT System and the realignment of its logistics capability in order to create significant additional warehouse capacity at its Kingsgrove headquarters to accommodate further acquisitions and new agency brands.

During this period of transformation the Company's revenue has remained strong; however earnings have more recently been affected by lower margins and higher operational costs. Margins in parts of the business have suffered due to pressure on McPherson's from some retailers to provide additional promotional support in order to maintain the strong market positions of the Company's brands in the current subdued retail environment. In addition, higher manufacturing costs in China have not been able to be recovered through price increases.

The aforementioned challenges persisted throughout the second half of the financial year, and were compounded by a slower than expected trading period over the last three months and a delay in the launch of two new higher-margin product ranges, now scheduled for the first half of FY2014. In addition, operational costs in the second half were elevated as a result of acquisition related expenses, a greater overall investment in advertising and promotion to underpin consumer demand for the Company's current portfolio of brands, and higher than expected one-off distribution costs associated with both the implementation of a major new product launch in grocery and the realignment of the Company's logistics capability, the latter having delivered additional available warehouse capacity for acquisitions that is yet to be utilised.

Although the transformation of the Company is progressing to plan and a lot has been achieved, as a consequence of the challenges that came into focus in the fourth quarter, this year's profit performance will be lower than expected. Statutory after-tax profit for the year to 30 June 2013 is expected to be broadly in line with last year's result, in the range of $17 - $18 million (FY2012: $17.0 million) before any impairment of intangibles. After-tax profit from the continuing business[1] before any impairment is expected to be in the range $15 - $16 million (FY2012: $18.2 million). Sales revenue from the continuing business is expected to be approximately $300 million (FY2012: $276 million).

[1] "continuing business" excludes non-recurring items, and McPherson's Printing Group in FY2012

The Company takes a prudent approach to the valuation of its intangible assets. Although this matter is still under review, initial indications are that a non-cash impairment charge of approximately $50 million affecting goodwill will be recorded in the FY2013 result.

The company has now embarked on a strategic review of its brands, with the aim of focusing on categories and channels where its sourcing, brand management and supply chain expertise can add the most value. This activity will complement the company's commitment to pursuing its strategy of diversifying its channels of distribution and expanding sales of higher-margin branded products.

Cash conversion from EBIT remains strong and net debt at 30 June 2013 is expected to be lower than a year earlier, with pre-impairment gearing (net debt / shareholders funds + net debt) forecast to be approximately 28%.

The company remains focused on maximising shareholder returns and its policy of distributing fully-franked dividends of at least 60% of net profit before amortisation and impairment remains in place.

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