ASX/Media Release **(ASX: MCP)**
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McPherson's 1H 2019 Results

(Half year underlying and statutory EBIT of $8.2m and PBT of $7.8m)

- **1% increase in underlying PBT, excluding Coty Fine Fragrances distribution from the previous corresponding period (pcp)**
- **11% growth in sales revenue from owned brands on pcp**
- **14% growth in sales revenue from core six brands on pcp**
- **80% growth in Dr. LeWinn's, 11% growth in A'kin and 14% growth in Multix sales revenue on pcp**
- **108% growth in sales revenue from the China market on pcp, despite disrupted supply**
- **Steps have been taken to improve Multix brand margins in the second half**
- **Completed strategic alignment for supply continuity with Aware Group**
- **Strategic investments made in 1H19 to deliver earnings growth in 2H19 on pcp**
- **Interim dividends of 6 cents per share, fully franked**
- **2.5% discount on Dividend Reinvestment Plan participation**

McPherson's Limited ("McPherson's" or "the Group") today announced final 1H19 results, which are consistent with the preliminary results released to the ASX on 17 January 2019. Both the underlying and statutory profit before tax for the half year to 31 December 2018 was $7.8 million. Underlying profit before tax for 1H18 was $9.5 million[1] from continuing operations i.e. excluding Home Appliances, which was divested on 28 February 2018. The statutory profit before tax for 1H18, inclusive of Home Appliances, was $3.8 million.

Total sales revenue from continuing operations of $106.5 million was broadly in-line with the pcp (1H18 $106.1 million) and increased by 11.8% excluding Coty Fine Fragrances distribution revenue from the prior period. The Coty Fine Fragrances distribution arrangement (which ceased with effect from 1 February 2018) generated $10.8 million in sales revenue and $1.8 million in profit before tax in 1H18.

The increase in underlying sales revenue was largely due to significant growth from McPherson's key owned brand Dr. LeWinn's, strong domestic pharmacy growth for A'kin, as well as revenue gains in the Multix brand in the grocery channel which reflected the successful introduction of the new "Greener" range of Multix products.

Underlying profit before tax from continuing operations and excluding Coty Fine Fragrances distribution from the previous corresponding period, increased 1.0% to $7.8 million from $7.7 million. While the company has achieved positive momentum in sales revenue, Multix brand margins have been impacted by approximately $1 million due to elevated USD commodity costs and a weaker Australian dollar during the period.

The Board of Directors have declared an interim ordinary dividend of 4 cents per share (cps) fully franked (2018: 6.0 cps fully franked) and a special dividend of 2 cps fully franked, both of which will be paid on 21 March 2019 to shareholders on the register at 4 March 2019. The interim ordinary dividend represents a payout ratio of 75 per cent of 1H19 earnings per share. The dividend re-investment plan (DRP) remains in place with respect to both dividends, with the Board reintroducing a 2.5% discount to the pricing of the DRP to encourage further participation in the plan.

McPherson's Managing Director, Mr. Laurence McAllister said: "As outlined in our preliminary results announcement on 17 January 2019, we experienced excellent results from our strategy to generate growth in our core owned brands. On the pcp, Dr. LeWinn's skincare brand revenue grew 80%, A'kin skincare grew over 35% in market, and we saw revenue growth of 14% from our Multix brand."

"We have built a significant franking account balance (of approximately $23 million) and a strong balance sheet which enables us to continue to prioritise value creation opportunities for our shareholders. Therefore, the Board has decided to maintain a high ordinary dividend payout ratio of 75% and to distribute a special dividend of 2.0cps. The reintroduction of a 2.5% discount to the pricing of the DRP is designed to both reward shareholders who reinvest their distributions and maintain capital for future investment."

Underlying results from Continuing Operations	**1H 2019 ($ million)**	**1H 2018[1] ($ million)**	**Change (%)**
Sales revenue	106.5	106.1	0.4
Underlying EBIT	8.2	11.2	(26.8)
Underlying profit before tax	7.8	9.5	(18.3)
Underlying profit after tax	5.5	6.2	(11.2)
Underlying earnings per share (cps)	5.3	5.9	(10.5)
Net Debt	19.5	30.4	(36.0)

Underlying results from Continuing Operations, excluding Coty Fine Fragrances distribution	**1H 2019 ($ million)**	**1H 2018[1] ($ million)**	**Change (%)**
Sales revenue	106.5	95.3	11.8
Underlying EBIT	8.2	9.4	(12.5)
Underlying profit before tax	7.8	7.7	1.0

Statutory results	**1H 2019 ($ million)**	**1H 2018 ($ million)**	**Change (%)**
Statutory profit before tax	7.8	3.8	106.9
Statutory profit after tax	5.5	0.1	Large
Statutory earnings / (losses) per share (cps)	5.3	0.1	Large
Interim ordinary dividend (cents fully franked)	4.0	6.0	(33.3)
Interim special dividend (cents fully franked)	2.0	-	NM

[1] 1H FY2018 Underlying results from continuing operations exclude the following significant non-recurring items before tax: $6.4m impairment of goodwill related to Home Appliances, $0.8m restructuring costs and $1.5m Home Appliances trading profit

Category performance

During the first half of the 2019 financial year, McPherson's generated substantial growth in **skincare, haircare and bodycare brands,** with revenue increasing 55% over the half to $15.1 million.

This growth was achieved primarily through the strong performance of Dr. LeWinn's, in both the domestic and export markets, despite disruption in the supply of a key product in this range for the export market. Moving forward, we have addressed this issue by establishing a new strategic alignment with the Aware Group, a reliable supplier to meet the anticipated rapid growth in our skincare requirements.

Sales of A'kin increased by 11% over pcp, with the brand growing at over 35% in the domestic pharmacy market, far outpacing category growth of 13%.

Sales within the **essential beauty** category were steady at $28.9 million, with Manicare, Lady Jayne and particularly Swisspers impacted by a reduction in stock levels by some of our key customers. In 2H19, we will maintain our strong product innovation pipeline which, combined with the strategic investments made in 1H19 to set up 780 in-store merchandising display units, is expected to yield improved sales growth.

The **household essentials and other brands** category recorded sales growth of 8%. The successful introduction of the new “Greener” range of Multix products, and the roll-out of a series of Multix “choose wisely” television advertisements and related social media content, led to 14% growth in this brand.

The termination of the Coty Fine Fragrances agency agreement, effective 1 February 2018, resulted in a 47% decline in revenue from **Agency brands** to $12.8 million. Excluding Fine Fragrances, sales of other agency brands reduced by 4%.

With respect to McPherson’s distribution agreement with Trilogy Natural Products (Trilogy), the Company has today agreed with Trilogy that the current distribution agreement scheduled to end on 31 March 2019 will not be renewed beyond 30 June 2019. McPherson’s and Trilogy have been in discussions regarding a new contract, however it has been determined that there is a conflict of interest between the McPherson’s and Trilogy brands vying for growth in the Natural Skincare segment. The relationship between McPherson’s and Trilogy remains strong and both parties are committed to ensuring an orderly transition of the Trilogy brand through to 30 June 2019, with no impact on FY19. McPherson’s is proud of the growth it has delivered for the Trilogy brand taking it from $3 million to a high of $12 million in wholesale sales over the last 6 years. In the FY19 forecast the Trilogy & Goodness brands represent approximately $11 million in annual sales and $1.7 million in EBIT for McPherson’s. Management has identified cost savings that will at least offset the impact of this EBIT decline.

Strategy Update

McPherson’s Managing Director, Laurie McAllister said: “It is very pleasing to see the positive outcomes from the successful implementation of our strategy to accelerate the growth of our core six owned brands, with 14% growth achieved in these brands in 1H19. Our focus on strengthening our agency brands through strategic customer partnerships is also yielding benefits through increased customer engagement, incremental retail space and ranging, and increased participation in value propositions such as exclusive offers.”

In the first half of 2019, we expanded our successful export business model. Despite disruption in supply, the Group achieved 108% growth in sales to China which is a key focus and growth market for our business. We also improved the profitability of our New Zealand business through increased sales of our Health, Wellness and Beauty range and careful management of operating costs.

The Group maintains a strong new product growth pipeline as we continue to explore opportunities to grow and balance our portfolio from predominately Beauty to the $13 billion Beauty Health and Wellness categories. We have the capability, capacity and track record of successfully growing acquired brands such as A’kin and Dr. LeWinn’s. Combined with our efficient infrastructure and market leadership, we are very well positioned to attract quality brands to the business.

As announced in November 2018, McPherson’s has established a joint venture 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”. This venture is expected to be earnings accretive from FY20 and will likely be the first of a number of “incubation” ventures to further support our growth strategy.

Cash flow, balance sheet and FX hedging

Net debt reduced by 36% from $30.4m to $19.5m over the 12 months ending 31 December 2018. The Group’s gearing ratio (net debt/total funds employed) has reduced from 26% to 17% over the same period. The 1H19 cash conversion rate of 22% was relatively low due to a necessary build in skincare inventory to support future growth in export sales and higher safety stock levels for Multix product to maximise sales opportunities. A significant improvement in 2H19 cash conversion is expected.

The Group's foreign exchange hedging policy, namely the utilisation of forward exchange contracts and options to hedge estimated USD purchases for the next 12 months, is unchanged. This policy provided a degree of EBIT protection for the Group in 1H19 as the AUD/USD depreciated by approximately 5% over the six months to 31 December 2018.

Outlook

Commenting on the outlook, Mr McAllister said: "We reiterate the guidance we provided on 17 January 2019. Namely, we anticipate that McPherson's underlying 2H19 profit before tax, excluding the impact of fine fragrances, will increase in the range of 20% to 30% in comparison with 2H18 of $8.6 million. Additionally, we anticipate that underlying full year FY19 profit before tax, excluding the impact of fine fragrances, will increase in the range of 10% to 15% in comparison with FY18 of $16.3 million."

"We plan to build on our first half financial result by leveraging our strong management team and the strategic investments made in 1H19; driving growth in our owned and agency brands supported by a strong new product pipeline; working closely with our customers; and continuing to focus on growth in the export channel. Multix brand margins, impacted in the first half by adverse commodity and currency movements, will improve as measures taken to reverse this decline take effect."

For further information please contact:

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About McPherson's Limited

McPherson's, established in 1860, is a leading supplier of health, beauty, household and personal care products in Australasia, with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, and skin care product ranges, kitchen essentials such as baking paper, cling wrap and aluminium foil, and personal care items such as facial wipes, cotton pads and foot comfort products.

McPherson's manages some significant brands for agency partners, however most revenue is derived from the company's diversified portfolio of owned market-leading brands, including Manicare, Lady Jayne, Dr. LeWinn's, A'kin, 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