

McPherson's 1H FY21 Results

Underlying Profit Before Tax (PBT) of \$7.1 million¹ consistent with guidance

Strong 1H21 domestic brand and sales performance offsets export unpredictability and supports free cashflow and interim dividend

Key Points: Overall

- Total revenue of \$101.7m (1H20 - \$106.0m)
- 6% growth in Australian domestic sales, excluding acquired brands.
- Growth in market share achieved in 4 of 6 core owned brands, excluding acquired brands
- Cash conversion of 68% (1H20 – 47%)
- Interim dividend of 3.5 cents per share (cps), fully franked, representing a 98% payout ratio
- Strong pipeline of innovative new product for release to market in calendar 2021
- Significant balance sheet and operational capacity to execute acquisition of scale in Health, Wellness and Beauty in the medium to long term.
- MCP is the 3rd largest ASX listed supplier into the Pharmacy category in Australia

In respect of Export, as foreshadowed in December:

- 1H21 Dr. LeWinn's performance in Quarter 2 slowed versus expectation, resulting in a 67% decline in sales to ABM on 1H20 as consumers participation in events, such as 11/11, during COVID-19 proves difficult to predict.
- ABM and MCP continue to see significant growth potential for our partnership in 2021. We are working collaboratively to mature our relationship and in market understanding.

Outlook:

- Export demand remains difficult to forecast given global market uncertainty.
- Expected 2H21 and FY21 EPS will be materially below 2H20 and FY20.
- Strong cash conversion and low debt will support dividend in the medium term.

McPherson's Limited ("McPherson's" or "the Group") today announced its results for the six months ending 31 December 2020. Underlying profit before tax for the half year was \$7.1 million¹ (1H20: \$8.5 million), within the guidance range provided in December 2020. Statutory profit before tax, inclusive of significant items, for the half year was \$1.6 million (1H20: \$8.5 million).

Total sales revenue of \$101.7 million was 4.1% below 1H20 (\$106.0 million). Domestic sales growth of 6% was achieved in a challenging environment, driven by growth in market share in 4 of the Group's 6 core owned brands. The Group's A'kin, Manicare, Lady Jayne, Swisspers and Multix brands all recorded 1H21 growth in sales in comparison with the previous corresponding period (pcp), while sales of Dr. LeWinn's were materially below pcp, largely due to a 65% decline in export sales.

¹ Excludes the following significant items before tax: (i) Provision for OzGuard hand sanitisers (\$6.1m); (ii) Payments in relation to termination of employment of former Managing Director (\$0.7m); (iii) Global Therapeutics acquisition costs (\$0.2m); and (iv) Release of contingent consideration in relation to the My Kart joint venture \$1.5m.

Contribution margins increased in 5 of the Group's 6 core owned brands driven by new product innovation and appreciation of the AUD/USD exchange rate. Operating expenses were well controlled, declining by 2.3% on pcp excluding significant, one-off items.

The Directors have declared an interim ordinary dividend of 3.5 cps, fully franked (2020 interim ordinary dividend: 4.0 cps full franked) to be paid on 18 March 2021 to shareholders on the register on 1 March 2021. The interim ordinary dividend represents a 98% payout ratio of 1H21 underlying profit after tax and is consistent with the Group's dividend policy to pay a minimum of 60% of underlying profit after tax, subject to other cash requirements.

Given the Group's low level of bank debt (\$3.8 million at 31 December 2020), the dividend reinvestment plan (DRP) has been suspended.

Underlying Results	1H21 (\$ million)	1H20 (\$ million)	Change (%)
Sales revenue	101.7	106.0	(4.1%)
Underlying earnings before interest and tax ¹	7.7	9.0	(14.5%)
Underlying profit before tax ¹	7.1	8.5	(15.9%)
Underlying profit after tax ²	4.6	5.7	(19.2%)
Underlying earnings per share (cps)	4.0	5.4	(25.9%)
Interim ordinary dividend (cps)	3.5	4.0	(12.5%)
Net bank debt (excluding lease liabilities)	3.8	19.6	(80.6%)

Statutory Results	1H21 (\$ million)	1H20 (\$ million)	Change (%)
Statutory earnings before interest and tax	2.1	9.0	(76.7%)
Statutory profit before tax	1.6	8.5	(81.1%)
Statutory profit after tax	1.2	5.7	(79.7%)
Statutory earnings per share (cps)	1.0	5.4	(81.5%)

McPherson's Managing Director, Mr. Grant Peck, said: "McPherson's 6% revenue growth in the Australian market over the six months to 31 December 2020 illustrates the strength of our brand portfolio and our ability to deliver new product innovations to market. McPherson's is the second largest Australian supplier of beauty products to the Australian Pharmacy channel.

"Our existing brand portfolio, with its predominance in the beauty category, is now complemented by the recent acquisition of the Fusion Health and Oriental Botanicals brands and the establishment of McPherson's Health category. This acquisition, effective 1 December 2020, provides the Group with strong go to market capabilities and product innovation credentials in the Natural Health & Vitamins and Dietary Supplements category, which in Australia is part of the \$5.6³ billion Health & Wellness retail sales market."

² Excludes the following significant items after tax: (i) Provision for OzGuard hand sanitisers (\$4.3m); (ii) Payments in relation to termination of employment of former Managing Director (\$0.5m); (iii) Global Therapeutics acquisition costs (\$0.2m); and (iv) Release of contingent consideration in relation to the My Kart joint venture \$1.5m.

³ Complimentary Medicines Australia Industry Audit & Trends 2020.



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Category performance

During the first half of the 2021 financial year, McPherson's strong growth trajectory in **skincare, haircare and body care brands**, was interrupted by a material decline in sales of Dr. LeWinn's product to China through its key partner Access Brands Management (ABM), in part due to a series of disruptions caused by the COVID-19 pandemic. Additionally, domestic sales of Dr. LeWinn's has been impacted by a significant decline in inbound Chinese students and tourists. Consequently 1H21 sales of Dr. LeWinn's declined by 42% to \$13.9 million.

McPherson's and ABM continue to focus on initiatives to materially improve the 2H21 outcome through further incremental promotional investments, innovation in new products, two significant sales events and growth in ABM's reseller network.

A'kin, the Group's natural skincare, haircare and body care brand, commenced ranging of 5 sku's in Woolworths in September 2020. This range is performing well and has contributed to 5% 1H21 domestic growth in A'kin sales. Total A'kin sales increased by 3% to \$3.8 million for the reporting period.

Sales in the **essential beauty** category were particularly strong, with 1H21 sales growth of 13% to \$32.9 million, driven by 30% growth in the market leading hair accessories brand Lady Jayne and 13% growth in Manicare, the market leader in beauty accessories. The cotton consumables brand, Swisspers, also grew by 2% in 1H21.

The **household essentials and other brands** category recorded a sales increase of 8% to \$33.5 million. Sales of the dominant product in this category, Multix, increased by 6% due to higher consumption of Multix products throughout the COVID-19 phase as people have engaged in more home based food preparation, food preservation and household waste disposal.

Our **Agency brands**, which produce a lower contribution to overall Group outcomes, recorded a 10% decline in revenue to \$6.5 million in 1H21.

Cash flow and balance sheet

The 1H21 cash conversion rate was seasonally lower at 68% given seasonal stock increases ahead of Chinese New Year shutdowns and relatively high December sales. However, the cash conversion rate was significantly higher than 1H20 (47%) and is expected to improve in 2H21 in line with seasonal trends and ongoing pro-active management.

Net debt excluding lease liabilities is very low at \$3.8 million, following the equity capital raised in 1H21 to fund the Global Therapeutics acquisition and potential future acquisitions in the medium to long term. The company's gearing ratio at 31 December 2020 (excluding lease liabilities) was 3%, a significant reduction from 18% as at 31 December 2019.

McPherson's continues to work closely with its key manufacturing partner in the skincare, haircare and body care category, Aware Environmental Limited (Aware). The continuity of supply from Aware has been critical to McPherson's success over the last three years as sales of Dr. LeWinn's products has grown from approximately \$20 million in FY17 to \$58 million in FY20. The adverse impact of the current COVID-19 related downturn in demand from Chinese consumers on Aware's customer base, including McPherson's, has resulted in a deterioration in Aware's financial outlook in the medium term. McPherson's supports the planned recapitalisation of the Aware Group to address its liquidity concerns, however it has impaired its 10.7% investment in Aware by \$4.0 million to a carrying value of \$2.0 million on 21 December 2020.



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This impairment is reflected as a reduction in the non-current asset “Financial asset at fair value through other comprehensive income” and a reduction in Reserves. It does not impact the Group’s profit and loss statement.

Strategy Update

The Group remains focused on expansion in the lucrative Health, Wellness and Beauty categories through extension of existing market leading brands into new product lines and growth in export markets. Recent increased investment in our research and development capability will be leveraged to drive new product innovations, with further investments in this capability planned as our business grows.

The smooth integration of the newly acquired Global Therapeutics business is a key priority for the next six months as the new McPherson’s Health business unit is established.

McPherson’s strong balance sheet and excess operating capacity will be utilised to explore further accretive acquisitions in the Health, Wellness and Beauty space over the medium to long term.

The continued development of McPherson’s existing team and the further strengthening of our capability set is a high priority as we proactively manage all risks associated with COVID-19.

Outlook

There remains an elevated level of uncertainty pertaining to McPherson’s short-term trading outlook, largely due to the difficulty of forecasting demand in China. Consumer behaviour will be difficult to gauge in the short term following an unexpected slowdown in the market in the last quarter of last year. It is therefore not possible to provide guidance at this stage, but it remains likely that underlying profit before tax and earnings per share for 2H21 and FY21 will be materially below 2H20 and FY20.

Given projected strong cash conversion and low levels of bank debt, the dividend payout ratio is likely to remain high in the medium term.

Authorisation:

This ASX announcement is approved and authorised for release by the McPherson’s Limited Board.

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About McPherson’s Limited

McPherson’s, established in 1860, is a leading supplier of Health, Wellness and Beauty products in Australasia and increasingly China, with operations in Australia, New Zealand and Asia. McPherson’s markets and distributes beauty care, hair care, skin care and personal care items such as facial wipes, cotton pads and foot comfort products, as well as a range of kitchen essentials such as baking paper, cling wrap and aluminium foil.

McPherson’s manages some significant brands for agency partners and via joint venture arrangements however, the majority of revenue is derived from the company’s diversified portfolio of owned market-leading brands, including Dr. LeWinn’s, A’kin, Manicare, Lady Jayne, Swisspers, Multix, Fusion Health, Oriental Botanicals, 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>