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

4 June 2015

Trading Update FY2015

McPherson’s Limited, the consumer products company, expects its underlying pre-tax profit for the year to 30 June 2015 to be in the range of 20% to 25% below FY2014, compared with guidance in February of a stronger second half and an increase of between 5% and 10% in underlying pre-tax profit for the full year. The main reasons for this decline are delays in realising the benefits from the company’s substantial transformation program, together with weaker consumer demand in some areas than had been anticipated.

Factors affecting the second half results:

- A significant delay in the acceptance of price increases by some customers; however, new pricing arrangements are now largely in place, which will improve future profitability.
- Protracted negotiations with customers to remedy the adverse effect of commodity pricing and the AUD/USD exchange rate on the viability of private label contracts. Margins on private label contracts have now been improved, while some other contracts have been exited.
- Increased promotional expenditure in key accounts in the last quarter to support the establishment and growth of newly acquired brands in a challenging trading environment, which will benefit these brands going forward.
- A delay in re-establishing the Australian distribution of some key fine fragrance brands; however, the success of recent product launches indicates a return to growth and a significantly improved outlook for these products.
- The performance by the Home Appliances division being below expectations. The recent appointment of a new chief executive, significant restructuring and various initiatives with customers and suppliers have materially improved this division’s outlook for FY2016.
- Increased costs re-shaping the New Zealand operation. The appointment of a new divisional manager, the recent outsourcing of the logistics function to a third party provider and the transition to McPherson’s primary ERP system, will provide a solid base for improvement in FY2016.

Paul Maguire, managing director, said: ‘We have restructured many aspects of the company to improve efficiency and to create a more resilient business and a strong platform for earnings growth. Over the past three years, since the demerger of our printing business, we have successfully integrated eight acquisitions, secured several profitable agency brands, and developed and launched new product ranges. We remain confident that our transformation strategy is sound, and the improvements we have made, and continue to make, will have a significant positive impact on earnings in future years.’

Initiatives to grow the business as well as improve productivity and profit are continuing including new product launches, further structural reform, expense reductions, a brand consolidation program and further price increases; all of which are expected to contribute favourably to earnings in FY2016. While the company is in the process of defining the extent of further structural reform, these initiatives will lead to net non-recurring expenses that will impact the company's statutory FY2015 result.

Pleasingly the 'McPherson's Housewares' business, a joint venture between McPherson's Limited and the Fackelmann Group, which is ably lead by an experienced international manager, is performing to plan and has a positive outlook for the future. As previously advised, the company is also pursuing the divestment of its 'Household Consumables' division, which is on track to perform well in the coming financial year.

In March 2015, the company successfully issued two $30m tranches of unsecured corporate bonds with tenures of 4 years (floating interest) and 6 years (fixed interest) respectively, providing funding certainty over the medium term and adding diversity to the company's capital base. The funds raised from this bond issuance were applied to extinguish secured term debt. Additionally, a new two year secured working capital facility has been established with the National Australia Bank and Westpac Bank.

In light of historically low interest rates, the company has also taken the opportunity to restructure its fixed interest rate hedging profile, establishing a new five year fixed interest rate swap agreement. This will reduce interest expense in FY2016 and FY2017, but will result in a one-off non-cash cost of approximately $1.6 million impacting the statutory result in FY2015.

The carrying values of intangible assets are subject to ongoing and annual assessment, and initial assessments indicate that there is no requirement for impairment of these assets.

The company's dividend policy, to distribute at least 60% of the company's underlying net profit after tax to shareholders (subject to other funding requirements), remains unchanged.

The company's results for FY2015 will be released to the ASX on Monday 24 August 2015. A further detailed update on operational and business improvement initiatives will be provided at that time.

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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, skin care and fragrance product ranges; the home appliance division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers; and the household consumables division markets and distributes kitchen essentials such as plastic bags, baking paper, cling wrap and aluminium foil.

The Housewares division markets and distributes products such as cutlery, knives, bakeware and kitchen accessories under brands such as Wiltshire, Stanley Rogers, Furi and Luigi Bormioli. McPherson's has a 49% stake in this division with the remaining 51% owned by the Fackelmann Group. Founded in Germany in 1948, the Fackelmann Group is a global manufacturer and distributor of kitchen, baking, home, leisure and bathroom products.

McPherson's manages some significant brands for overseas agency partners such as Gucci, Dolce&Gabbana and Hugo Boss Fine Fragrances; 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, A'kin, Al'chemy, Swisspers, Moosehead, Maseur, Euromaid, Baumatic and Multix.