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McPherson's 1H2016 Results

- **First half performance in line with guidance**
- **Full year outlook remains positive with underlying earnings expected to grow**
- **Business transformation initiatives continue to deliver results:**
    - **Initiative to grow key brands on plan**
    - **Health & Beauty performing strongly, contributing 48% of total revenue in 1H2016**
    - **Better resilience to FX fluctuations and the weak Australian dollar**
- **Debt reduction of $20 million, effective 31 March 2016, resulting from the divestment of the remaining 49% share of McPherson's Housewares joint venture**
- **Interim dividend of 6.0 cps fully franked consistent with prior corresponding half**

McPherson's Limited today announced a 2.1% growth in underlying pre-tax profit to $12.4 million[1] for 1H2016 (1H2015: $12.1 million[1]). The company's statutory pre-tax profit for 1H2016 was $13.5 million (1H2015: $12.3 million[2]).

Sales revenue decreased by 8.9% from $184.7 million to $168.3 million; however, excluding the Housewares division, 51% of which was divested in November 2014, sales revenue increased by 6.2%.

Directors have declared an unchanged interim dividend of 6.0 cents per share fully franked, payable on 7 April 2016 to shareholders on the register at 21 March 2016. The dividend re-investment plan remains in place with a 2.5% discount.

Results summary for six months ended	1H2016 ($ million)	1H2015[2] ($ million)	Change (%)
Sales revenue	168.3	184.7	(8.9)
EBITDA (excluding non-recurring items)	17.3	16.8	2.9
Underlying EBIT[1]	16.0	15.4	3.6
Underlying profit before tax[1]	12.4	12.1	2.1
Underlying profit after tax[1]	8.8	8.6	2.2
Statutory profit before tax	13.5	12.3	9.6
Statutory profit after tax	10.1	9.3	8.4
Underlying earnings per share (cents)[1]	9.1	9.0	1.1
Statutory earnings per share (cents)	10.4	9.7	7.2
Interim dividend (cents – fully franked)	6.0	6.0	-

[1] Underlying figures exclude the following significant non-recurring items before tax:
1H2016: $1.5m increase in contingent consideration from the Housewares divestment; $0.2m restructuring and $0.2m legal & acquisition costs
1H2015: $1.7m decrease in contingent consideration for the Home Appliances acquisition; $1.4m restructuring and $0.1m acquisition costs

[2] 1H2015 figures have been restated to reflect early adoption of AASB9 financial instruments and due to timing of recognition of sales and promotional discounts

Paul Maguire, Managing Director, said: ‘First half performance was pleasing given the significant headwind faced by the company due to a depreciating Australian currency. Selling price increases, operational initiatives and significant expense reductions enabled the company to deliver a first half profit slightly ahead of the prior corresponding period, and this provides a solid platform for improved 2H2016 performance relative to 2H2015.

The company’s successful Housewares partnership with the Fackelmann Group has been characterised by a high degree of cooperation. While the 49% investment in the Housewares joint venture with Fackelmann has yielded an improved EBIT outcome, the company has decided to divest its remaining interest in the venture, which is consistent with its overarching strategy to increasingly focus on Health & Beauty. Approximately $20 million in proceeds, expected at the completion date of 31 March 2016, will be used to reduce debt, thereby materially strengthening the company’s balance sheet.’

Divisional performance

Sales in our key **Health & Beauty** division increased by 11% and the division contributed 48% of Group revenue, excluding Housewares, compared with 45% in 1H2015. The pharmacy channel contributed 29% of group revenue, up from 23% in 1H2015.

The market leading brands Manicare and Lady Jayne, which form the foundation of the Health & Beauty division, continued to dominate despite strong competition. McPherson’s commitment to and successful execution of innovative new product development, improvements in sourcing outcomes, supply chain proficiency and substantial in-field presence were the key reasons for this success.

The more recently acquired A’kin natural skincare and haircare brand and the Trilogy natural skincare agency performed very well. The Dr LeWinn’s skincare brand also strengthened its market position.

Sales of Procter & Gamble’s fine fragrances (Gucci, Dolce & Gabbana and Hugo Boss) were significantly above the prior period, primarily driven by the successful launch of new products such as ‘Gucci Bamboo’ and ‘Hugo Boss The Scent’.

The Health & Beauty brand portfolio is currently being consolidated, reducing the total number of brands and products on offer; providing scope to reduce distribution, marketing and sales expenses and thus further boost profitability. Importantly, this brand consolidation will facilitate increased investment in our key beauty brands that have significant growth potential, such as A’kin and Dr LeWinn’s. These brands will also benefit from further product development and sourcing initiatives in both Australia and overseas.

The company is making a significant investment in its digital transformation that will strengthen consumer engagement as well as provide consumers with an e-commerce direct purchasing option via newly developed brand web sites.

In **Home Appliances**, which contributed 23% of Group revenue, the success of significant new product development in ovens & cooktops and broader ranging in key retail customers lead to an 18% increase in sales. While margins were adversely impacted by the AUD/USD depreciation, product and distribution cost reductions in conjunction with volume growth are expected to deliver improved profitability in financial year 2016.

The **Housewares** joint venture with Fackelmann delivered an improved contribution to company profit as a result of selling price increases, changes in customer ranging and cost reductions.

The **Household Consumables** division, with products sold under the Multix brand, maintained its market leadership position and contributed 25% of Group revenue. Growth in sales of Multix branded products was achieved, while sales of private label products declined as unprofitable private label contracts were exited. Margins continued to be adversely affected by AUD/USD depreciation, partially offset by lower commodity costs, which continue to ease. Opportunities to divest this division were considered during the half but not taken up. Divestment is not being pursued at this time.

Sales of **Impulse Merchandising** products grew by 14% due to expanded supermarket ranging; however, margins were adversely impacted by AUD/USD depreciation.

Cash flow, balance sheet and hedging

Net debt at 31 December 2015 was $92.8 million and the company's gearing ratio (net debt/total funds employed) was 46.4%. Net debt at 30 June 2016 is projected to be significantly lower than 30 June 2015 due to the application of the estimated $20.0 million in proceeds from divestment of the company's remaining 49% interest in the McPherson's Housewares joint venture.

The company's foreign exchange hedging policy remains unchanged, with estimated US dollar requirements hedged eight months forward on a rolling basis, using options, foreign exchange contracts and collars.

Outlook

Mr. Maguire said: 'Appropriate steps have been taken to counter the adverse effect of the weak Australian dollar and we have recovered well, successfully re-setting the business for the current currency environment.

Initiatives to grow our key brands as well as improve productivity and profit continue to be pursued; including new product launches, operating expense reductions, brand consolidation, further restructuring and selling price increases.

Our key Health & Beauty brands will be strengthened by our significant investment in the digital area, and emphasis is being placed on growing these brands as they have substantial growth potential both here and overseas.'

For further information please contact:
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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 fine fragrance product ranges; the Home Appliance division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers; the Household Consumables division markets and distributes kitchen essentials such as plastic bags, baking paper, cling wrap and aluminium foil; and the Housewares joint venture markets and distributes cutlery, knives, bakeware and kitchen accessories.

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 brands, including Manicare, Lady Jayne, Dr LeWinn’s, A'kin, Swisspers, Moosehead, Maseur, Euromaid, Baumatic and Multix.