McPherson's Limited

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McPHERSON'S LIMITED
CHAIRMAN'S ADDRESS by MR GRAHAM CUBBIN
ANNUAL GENERAL MEETING 21 NOVEMBER 2016

Good morning. I am pleased to welcome you to McPherson's AGM, my sixth as a member of the Board and second in the role of Chairman.

Last year I assured shareholders that we had a plan to improve the financial performance of the business and to create a strong platform for further business growth. Through the year management has worked hard to implement that plan and I am pleased to report that, as a result of these efforts, we have reported a significant improvement in financial year 2016 statutory and underlying profit.

Before talking about these results in more detail, I would like to turn to the very important change in the leadership of our company.

Firstly, I would like to take this opportunity to recognise the contribution and commitment of our departing Managing Director, Paul Maguire.

Paul leaves McPherson's in a stronger position than when he started, having transformed the business materially. During his seven years as Managing Director Paul has led a series of divestments and acquisitions which have strengthened the business portfolio, including a greater focus on higher value categories such as Health and Beauty – a core area of future growth for the company. Paul, thank you for all your efforts over your time with the company.

I am also delighted to welcome his successor Laurie McAllister. Laurie joins McPherson's following a career as a successful Managing Director with extensive FMCG exposure. Laurie has had 22 years of experience with Coca-Cola in very senior roles operating across more than eighty countries, based out of five countries across Europe and Asia-Pacific. Most recently, Laurie has been Managing Director of Sanofi Australia & New Zealand. Laurie has already commenced in his role. We are confident that Laurie will consolidate the achievements which have already been delivered and generate new growth in our business.

As I mentioned, it is very pleasing to report a significant improvement in financial year 2016 statutory and underlying profit as a consequence of the company's substantial transformation program, the implementation of which commenced over four years ago with the demerger of our printing business.

The improved profit result was achieved despite lower revenue, reflecting a significant improvement in the quality of our revenues. This was achieved by implementing a disciplined program of brand consolidation and the rationalising of lower margin branded and private label product ranges.

As you would be aware, McPherson's is highly exposed to foreign exchange effects and it is particularly pleasing to achieve this double digit growth in underlying profit despite the depreciation of the Australian dollar versus the US dollar. To put this in perspective, in financial year 2015 McPherson's experienced an average AUD/USD exchange rate of US86 cents. In financial year 2016 this reduced to an average US76 cents. Without the successful implementation of strategies to mitigate the effect of this currency depreciation, the company's year on year EBIT would have decreased by $13 million or 58%.

Strategies which have been successfully implemented are multi-faceted and include:

- Revenue initiatives with broad based price increases
- Product cost reductions across all categories with some remarkable cost savings achieved by our sourcing team
- Organisational redesign, including the strengthening of the leadership team, improving focus and reducing cost
- Other overhead and operating efficiencies including better use of technology in our management systems

The combination of these initiatives has delivered significant operating expense reductions allowing us to deliver growth in overall contribution margin and underlying profit.

Importantly, the company's balance sheet was materially strengthened in financial year 2016, with net debt decreasing from \$77 million at 30 June 2015 to \$50 million at 30 June 2016. This was due to very strong operating cash flow before payments of interest and tax of \$34.2 million and net inflows from divestments of \$9.8 million. Consequently the gearing ratio (net debt/total funds employed) reduced from 44% at 30 June 2015 to 32% at 30 June 2016. In addition, in 2016 shareholders were paid fully franked dividends totalling 8 cents per share.

The company continued to diversify and strengthen during financial year 2016, with an increased focus on and investment in categories and brands where McPherson's brands and product innovation translate to improved margins. This has also delivered a more robust channel mix with the grocery channel contributing 37% of revenue, compared with 45% in the prior year. Sales through the pharmacy channel continued to grow, contributing 29% of total revenue.

Paul Maguire will explain in his address that we have continued to pursue a clear strategy for growth, focused on strengthening our presence in Health & Beauty as well as continuing to improve our balance sheet. Significant progress continues to be made by management in transforming the company and Paul will update you on our most recent operational and strategic initiatives.

On behalf of the Board I would like to take this opportunity to thank all our staff at McPherson's for their considerable efforts in repositioning the company both strategically and operationally during a very challenging year, and I would like to thank our shareholders for their continuing support.

I will now hand over to Paul Maguire to present the Managing Director's address and then Laurie McAllister will take this opportunity to formally introduce himself.

Paul Maguire presents the Managing Director's address