McPherson's Limited (ABN 98 004 068 419)

2024 AGM – CEO Address and FY25 Trading Update

Good morning, everyone, and thank you, Ari.

Strategy update

When I came into the business in August 2023, we identified a clear set of strategic priorities, focused on a streamlined set of core brands in health, wellness and beauty and a reshaped operating model that would better support these brands.

In the past year, our new Executive Team and I have been hard at work on these priorities. In FY24, we rationalised our brands through identifying our core and supporting portfolio brands, exiting certain non-strategic brands and ceasing private label products. We also took cost out of the business and divested the Multix brand to become a pureplay health, wellness and beauty company.

The transformation of McPherson's that is underway is a major undertaking, but an essential one. The business has historically been a capital heavy distribution and sales business. Technology and infrastructure across the business needed updating. And it has been overly exposed to factors we can't meaningfully control.

Our future is as a capital light sales and marketing business. Where previously McPherson's managed numerous suppliers of raw materials and finished products, co-ordinated mass delivery and logistics, and ran large scale warehousing with national distribution, the new McPherson's must become a leaner, brand-focused organisation that can make the right level of investment to promote our leading brands through our valued customers.

Our business must move beyond a period of under-investment in its brands and related capabilities, and instead re-focus on three key pillars - brands, customers and people. We need to become a more agile business, focused on a more favourable, higher margin product mix which can be distributed and sold through more efficient routes to market. If we do this, then we will set McPherson's on a fundamentally different strategic trajectory and restage ourselves for the next chapter of growth in our storied history.

Executing on our priorities has involved some hard choices starting with the restructuring we carried out a year ago to refocus the business and reduce our costs. At that time, we set out a new, more focused path for McPherson's: to be a 'pure play' health, wellness and beauty company with five core brands, and a portfolio of supporting brands.

Identifying and driving these five core brands underpins our strategy for the business. These five brands – Manicare, Lady Jayne, Dr. Lewinn's, Swisspers and Fusion Health – are our most recognisable brands, known by consumers nationwide and stocked in supermarkets, pharmacies and other retailers across the country.

These brands are in resilient, attractive categories: beauty tools, hair accessories, skincare, cotton, and vitamin, minerals and supplements.

We see significant potential for the growth of these core brands. However, they must be supported by the right business model and increased investment in brand building activities.

Our brands are category drivers – and that means they need continual innovation, research and development, investment in advertising and promotion and an efficient distribution model.

Divestment of Multix

As part of reshaping our business model, and as Ari mentioned earlier, in June this year we completed the sale of the Multix brand and assets for $19 million.

This sale was preceded by the adoption of our strategy to become a 'pure play' health, wellness and beauty company with our five core brands and our portfolio of supporting brands.

The sale has helped fund our transformation activities which will involve increasing investment in our fantastic brands, further right-size our business for the future, reviewing of our cost base and assessing more efficient distribution and routes to market for our products.

Our brands

While divesting Multix was a major milestone in our transformation journey, we've also done a lot of work on our brands this year.

Firstly, we've embarked on a significant rationalisation of our stock keeping units (or SKUs), reducing our total list, and continuing to focus on identifying our most popular, impactful and profitable SKUs.

We've also rationalised both logistics and formulated products suppliers to focus on reliability and quality, through strategic alignment to fewer, better suppliers. Resolving supply issues across brands including Dr. LeWinn's and Fusion was a key priority for us during the year, and I am pleased to report that constraints have been resolved across the majority of these SKUs.

We've completed the first phase of our Salesforce® software implementation - designed to unlock world class sales execution, and the second part – Trade Promotion Management or "TPM" – is now live.

Our brands are our strongest assets – they are our strategic moat. They are in the majority of Australian households, are familiar to Australians when they shop, and present high-quality solutions to their health, wellness and beauty needs. Across all of them, we need to continue to prioritise and demonstrate their points of difference, underpinned by detailed customer research and data.

McPherson's is also investing in much needed research -of our consumers and the market. This will unlock valuable insights to better inform our promotional and market activities.

We see exciting opportunities for our brands.

Manicare® is Australia's No. 1 beauty tools and accessories brand. Its points of difference are quality and expertise across more than 150 SKUs, including essential beauty tools, eyelash and nail products. We're also undertaking a comprehensive pricing review, and we have started in-depth consumer research to determine the most attractive consumer path for the Manicare brand.

Lady Jayne® is Australia's No.1 hairbrush and accessories brand. It was established in 1928 and produces a range of brushes, accessories and rechargeable electric hair styling products. Our priorities for Lady Jayne are growing the hairbrush category through innovation, and expanding and growing our rechargeables range. As with Manicare, we have started in-depth consumer research on the Lady Jayne brand to reinvigorate our core SKU's.

Dr. LeWinn's® is an Australian made anti-aging skincare brand. Its cutting-edge ingredients and clinically tested, proven formulations set it apart due to decades of innovation and remains a leader in the anti-ageing category. We have implemented a new business and sustainable expansion model for China, and we are also undertaking detailed consumer research on the Dr LeWinn's brand.

Swisspers® is Australia and New Zealand's No. 1 cotton brand. It's a premium brand: cotton for personal and infant care. Our priorities are to emphasise our superior quality and to improve and accelerate our innovation plans for this brand.

And finally, **Fusion Health®** is a premium vitamins and supplements brand. It's Australian-made, and its products use ingredients from Traditional Chinese Medicine, often in combination with vitamins, minerals and other nutrients, to blend ancient and modern science. Our priorities are to strengthen its brand positioning, product ranging and distribution.

Operations update

Our brands are strong – but as I said, they must be supported by the right business model. From an operational point of view, there are two key areas we need to focus on.

Firstly, the existing cost base supporting McPherson's warehouse and distribution activities is significant and underutilised. Future costs to maintain this model will increase materially over time as outdated and unsupported warehouse systems would require replacement and modernisation. The capital outlay to replace these systems would be material and unavoidable.

Secondly, when we divested the Multix brand and assets, while we became less exposed to direct variable costs, there was a shared fixed cost base that was used by Multix, as well as our health, wellness and beauty brands. Following the divestment of Multix, a large portion of this shared fixed cost base, which includes warehouse capacity and associated distribution and operating costs, remained with the business. We are now working to ensure the business has the right cost base to drive efficiency and growth in its core brands by seeking a leaner and more efficient model, right for a new portfolio and the changing nature of the pharmacy channel.

Following the divestment of Multix we announced a strategic review of our supply chain and route to market. Implementing a new operating model informed by this review remains a key priority in the transformation.

We've been busy making other changes to our operating model too.

In our international operations, we've repatriated the majority of our Hong Kong procurement function to Australia and have a plan that is right-sized for our new portfolio. We've also reset the international sales division to focus on developing new consumers through the rapidly expanding social ecommerce channels in China, particularly for Dr. LeWinn's.

We've also developed digital and ecommerce strategies in a staged rollout of our brands to improve our DTC (direct to consumer) and omnichannel presence. Our Manicare, Lady Jayne and Dr. LeWinn's products are now available at Adore Beauty as we continue to look for new channels to present our brands to consumers digitally and we are excited to launch new DTC sites on Shopify for Fusion and Maseur in December, and Dr LeWinn's in the near future.

Financial performance

This year we reported sales of $144.6 million and underlying EBITDA of $7.7 million from our continuing operations.

Our Underlying EBITDA was negatively impacted largely by foreign exchange and portfolio brands. In addition, our material non-recurring items, incurred as part of our strategy reset and transformation, led to a significant statutory loss.

It was encouraging to see that core brand sales outperformed our other brands throughout the year and, notably, improved in 2H FY24 when compared to 2H FY23 in difficult trading conditions.

Our statutory loss from continuing operations was $11.4 million. This number reflects the significant material items from our strategic reset and transformation, including $3.7 million on the impairment of our Exclusive Distribution Agreement with Chemist Warehouse, a $2.8 million impairment on other non-core portfolio brands, and $2.3 million of inventory write-downs associated with product rationalisation and exit of non-core agency brands.

We also undertook detailed planning during FY24 to reduce working capital. This included improved inventory management and led to strong operating cash flows for the year. Overall, we ended the year with a strengthened net cash position of $14.1 million.

FY25 Trading Update

During the first four months of FY25, sales from McPherson's core brands have shown modest growth of 1% (against PCP), an early indicator that investments in core brands are providing a return. This performance reflects upweighted brand investment during the year to date, in line with management's strategy to use disciplined, strategic spend to drive growth and build momentum in the core brands.

In addition to increased brand spend, selling, general and administrative (SG&A) expenses have increased vs. the same period in 1H24, reflecting the implementation of the Salesforce® software and increased investment in consumer data, both key components of the Company's re-set strategy to invest in and grow its attractive core brands. This investment in the core brands has been partially funded by savings from the restructuring activities undertaken in 1H24, and other cost-out initiatives.

McPherson's will report its half year results in February 2025 on the basis of its continuing operations. 1H24 will be presented on a comparable basis so that both periods reflect the performance of the Company excluding the Multix brand and assets. While the key holiday trading period of 1H25 is yet to come, it is currently anticipated that the 1H25 underlying EBITDA will be significantly below the 1H24 underlying EBITDA of $7 million[1] given the deliberate decision to weight brand investment to 1H25 and the transformation activities underway such as the implementation of the Salesforce® software. On the basis that current trading conditions continue and noting the weighting of brand investment to 1H25, management anticipates FY25 underlying EBITDA[2] to be majority weighted to 2H25.

Closing remarks

We are focused on methodically working through the transformation of McPherson's.

Our aim is to substantially deliver on our transformation this current financial year, so we have our new, simplified operating model fully functional by the start of FY26. This is an ambitious aim, but we are steadfastly focused on making the necessary changes, and taking the deliberate decisions, that are needed to become a more streamlined and focused organisation.

I'd like to close by thanking our Executive Team and all our employees for their efforts, for believing in what we are working to achieve, and for having the courage to contribute to

[1] Preliminary unaudited estimate for 1H24 continuing operations (excluding the Multix brand and assets).
[2] For reference, FY24 reported underlying EBITDA for the continuing operations was $7.7 million.

make a positive difference every day. McPherson's has a long history in Australia and as the current custodians of its legacy, we deeply recognise that we build tomorrow's legacy by remaining fully committed, enthusiastic and passionate about our brands, our customers and our people.

I'd also like to thank the Board collectively and each of the Directors for their continued support and encouragement. Your Board and management are single-minded in wanting to achieve a profitable and sustainable restage of this amazing Company for all stakeholders.

Finally, but certainly not least, I'd like to thank you, our shareholders, for your continued support of McPherson's.

Thank you and I will now hand back to Ari.