23 November 2021

ASX: MCP

Company Announcements
ASX Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir / Madam,

2021 ANNUAL GENERAL MEETING – CHIEF EXECUTIVE OFFICER'S ADDRESS

The Chief Executive Officer of McPherson's Limited, Mr. Grant Peck, is today addressing shareholders in the company's Annual General Meeting (AGM), which is being held virtually at **https://web.lumiagm.com/371792891,** commencing at 11.00 a.m. (Sydney time).

The Chief Executive Officer's AGM Address follows below.

The Chairman's AGM Address has been lodged separately.

The AGM Presentation will be lodged separately.

Approved for release by MCP's Company Secretary.

Yours sincerely,

Phil Bennett
Company Secretary

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McPherson's Limited 2021 Annual General Meeting

CEO Address – Mr. Grant Peck

23 November 2021

Thanks Ari.

Thank you for your attendance and interest in McPherson's today.

I was appointed McPherson's CEO almost 12 months ago. As I reflect on the 2021 financial year - I can only agree with Ari – I think it is fair to say it was one of McPherson's most challenging years in the last decade.

Throughout the year, due to Covid-19, we have continued to see Australians living through various lockdowns, with large parts of the population having to navigate some form of stay-at-home measures during this time.

The McPherson's team largely performed their roles remotely and with great commitment and focus. Equally the warehouse and distribution teams continued to fulfil orders, adapting quickly to the health requirements directed by the authorities.

We continued to meet the protective measures implemented by the various levels of government with a lens on protecting the health and safety of team members, customers, and the broader communities in which we operate.

I am grateful for the support of my team, customers and suppliers as we navigated 2021 against this challenging backdrop.

[SLIDE - FY 21 RECAP]
And while it was challenging, FY2021 was also a year of significant contrasts. We delivered strong growth in core Beauty brands Manicare, Lady Jayne, Swisspers and A'kin with a 9% increase in domestic sales of company-owned brands during the year.

Unfortunately, our resilient domestic performance was more than offset by the significant decline in sales of Dr LeWinn's products to China, which resulted in a 10% decrease in revenue.

We recorded underlying EBIT of $11.3 million and our balance sheet remains strong with low debt and gearing.

It's not possible to review 2021 without reflecting on the disappointment and impact of the business outcome in respect of the China market so I am going to go into some detail on that now.

[SLIDE – CHINA UPDATE]

In the year ending June 2020, our Dr. LeWinn's brand delivered stellar growth in China through our cross-border e-commerce channel to this market. The growth was on the back of our successful anti-ageing product innovations in the Australian market.

The daigou phenomenon, fueled by international tourism and students, created significant demand for from Chinese consumers. This, in turn, generated substantial growth in turnover from fiscal 2017 to fiscal 2020, with particular success in the key Chinese consumer promotional periods, like Singles Day.

As we moved through fiscal 2021, the impact of the Covid-19 pandemic on our narrow path to market, played out on what had been a runaway success. In the context of rapid growth and repeated out-of-stock positions, the Company faced the prospect of supply chain uncertainty and in conjunction with our in-market distributor, thought it prudent to build considerable stock positions. With an already long supply chain, inflated by contingency, the inventory levels reflected an expectation of significant continued growth.

The first few promotional periods during the early onset of Covid-19 continued the growth profile we had experienced pre-pandemic. However, as we now unfortunately have seen, the fundamentals for international skincare brands in a cross-border e-commerce sense changed. The sales outcomes, across the market, from the 11/11 promotion in November 2020, which is normally the largest annually, fell well short of expectations.

The combination of materially reduced daigou demand for Australian products, and stronger domestic Chinese skincare offerings appealing to the Chinese consumer, resulted in a significant reduction in sales for Dr. LeWinn's in China.

Our expectation of a modest rebound in demand in China in the first half of fiscal 2022 which was supported by feedback from our key China customer has disappointingly not transpired. We announced on 1 November the decision to incur a one-off provision in the range of $8 million to $10 million in relation to excess Dr. LeWinn's inventory, in our first half fiscal 2022 results. Ultimately this will protect the Dr LeWinn's brand equity longer-term.

The lessons from this experience are numerous and will result in an improved strategy and approach to international markets.

As a board and a management team, we are clear that performance must improve.

Whilst China will remain as a key market for McPherson's, as it's one of the world's largest skincare markets, our updated strategy involves broader distribution, acknowledging the vulnerability of over-reliance on one channel in China. The Dr. LeWinn's brand remains popular in China, consequently the Company does expect improvement over time.
A measured, self-funding approach to expansion into other international markets has also commenced with the Company recording its first sales of approximately $100,000 to the United States in September 2021.

[SLIDE – HEALTH WELLNESS & BEAUTY – A GROWING MARKET]

But there remains a broader context for McPherson's.

The daigou cross border opportunity at its peak was only 15% of McPherson's turnover.

The domestic core business resilience and performance through a prolonged period of changing consumer behaviors arising from the pandemic is very positive.

McPherson's underlying core performance is based on a breadth of channel participation, six strong core brands and participation in categories poised for continued and enduring growth, with an addressable market in Australia of $15 billion.

We are well positioned to leverage positive macro trends in our industry; the growth of pro-active beauty, the strong reputation for beauty products made in Australia, the growth of beauty routines at home, which has been particularly supported by Covid, and the consumer trend towards more sustainable products.

[SLIDE – OPERATIONAL REVIEW]

Following these disappointing results out of China and having just been appointed as CEO, the company undertook an operational review to identify and prioritise McPherson's key growth drivers, with a view to implementing strategies that deliver both short and long term value to shareholders. The review had two core components; firstly an examination of the group's strategic frameworks and secondly the construction of a disciplined strategy, supported by a highly capable team, to achieve those objectives.

I'd like to update you all on progress against the Operational Review, which will simplify our business, drive efficiencies and assist in returning the Company to profitable growth.

The review identified initiatives across four key areas with a target to deliver $300 million in total sales and $50 million in total EBIT by FY26.

The four key strategic pillars are:

1. Continued focus on core owned brands and key domestic channels
2. Establish health and wellness as a new growth platform
3. Expand our international footprint
4. Recalibrate our cost base.

A key first step to execution of the Operational Review has been the extensive reshaping of the management team with a focus on accountability to deliver against the strategic cornerstones.

In-order to support the strategy we have restructured the Executive Team with Commercial leads for ANZ, Health and Wellness and International, each with divisional profit and loss accountability. Furthermore, the Executive Team has been reduced by three, simplifying the reporting structure and reducing costs.

We now believe we have the right team in place, focusing on the key objectives in our three business units of Core Brands, Health & Wellness and our International business. I would now like to look at each of these strategic pillars in more detail and provide an update on our progress.

[SLIDE – CORE OWNED BRANDS]

Our first strategic pillar is a **focus on our core owned brands** where we will achieve growth through better ranging, as well as customer and channel expansion. By focusing on innovation, we will also tap into adjacent categories, leveraging the strength of our brands.

This is the key pillar of our Operational Review and I am pleased to report that our focus is delivering results. As at the end of October, we continue to track positively towards our targets. Some highlights are shown on the presentation slide that you can see and I want to point out a few.

On **Ranging** – we have confirmed an additional 60,000 distribution points of our 79,000 annual target and are on track to reach our full year 22 target of 1.2 million in total.

Our focus on well-defined **innovation** continues to fuel our growth with incremental sales from 163 active and planned projects in the NPD pipeline.

The Company will continue to evolve its sustainability credentials, established through the market leading position it has taken with its Multix Greener range and new product development targeted at removing plastic packaging and product components.

Establishment of clear sustainability goals, with relevant product innovation will continue to be an important element of the Company's future sustainability agenda.

The Company is actively leveraging the strength of its brands and expanding into **adjacent sectors** such as launching a Swisspers hypoallergenic skincare range specifically for infants.

This has resulted in the continued growth of our core brands with sales up 9% year to date at 30 October 2021 when compared with the same period last year.

[SLIDE – HEALTH AND WELLNESS PLATFORM]

Moving on to our second strategic pillar – establishing a growth platform in Health & Wellness.

During FY21, McPherson's expanded into health category with the acquisition of the Fusion Health and Oriental Botanicals brands in December 2020.

Through the acquisition process McPherson's recognised the complementary nature of this category. It represents a key adjacency that our core skill sets, broad customer base, and logistics capability are uniquely positioned to support.

This well recognised brand and broad product offering led to the creation of McPherson's Health and Wellness Division, providing a new category from which to deliver future growth. Our focus with this division is to access ranging upside in Australian pharmacy, grow international distribution for the brands and accelerate new product development.

The Health and Wellness Division generated incremental sales and profit before tax, of approximately $9.2 million and $1.4 million respectively in FY21, from its first seven months of operation under McPherson's ownership.

I'll now spend a little time to provide an update on the integration of Fusion Health into McPherson's.

The newly formed Health and Wellness Division introduces significant capability and category knowledge with deep health store and pharmacy distribution experience who have transitioned well into the new McPherson's Health & Wellness business.

At acquisition, product supply levels were significantly disrupted, and this was leading to stock shortages. We have now largely addressed this issue and our "in-stock position" significantly improved with Q1 FY22 availability of over 95%.

The Covid lockdowns impacted the health store channel, where physical stores were mandated to close, and rely purely on online fulfilment. However, we are now seeing demand recover as lockdowns end.

Despite this challenge, we remain on target to deliver planned sales and EBIT in the Health and Wellness business in fiscal 2022 in-line with our expectations upon acquisition

Demonstrating the channel opportunities associated with health stores, the team have achieved incremental distribution of A'kin into 129 health food stores.

In respect of the Fusion brand potential we remain excited. We are planning to deliver 7.5% of sales through new products in FY22, and this number could well be a modest expectation as consumers continue to seek natural solutions to enhancing their immunity.

We have refreshed and revised the Fusion brand identity, by simplifying and contemporising the look and feel of the packaging.

We have been very encouraged the success of our Wintering Well campaign, which drove consumer reconsideration through winter. This award-winning campaign increased website traffic by 48%, new users by 44% and delivered over 23 million ad impressions and 2 million video views across Google and Facebook.

We have also progressed swiftly with operational efficiency initiatives in the health business. In order to extract operational efficiencies in the Health business we have implemented a new go to market distribution strategy in Western Australia, which creates improved customer service insight and understanding. This strategy is cost neutral in FY22 but is expected to deliver a 10% EBIT improvement in the Health business in FY23.

[SLIDE - INTERNATIONAL EXPANSION]

Now on to our third pillar. The expansion of our international footprint is the key strategic pillar that will take more time and focus to execute given the current circumstances. I have already covered our approach in China however, the Company is also taking a measured, self-funding approach to broadening our brand presence in targeted countries, having acknowledged the vulnerabilities of an international strategy that focuses on a single channel in to one market.

In the USA, Dr. LeWinn's brand registration is now complete, and distribution has commenced. We are now live on the Amazon platform and have started to record initial sales.

We are planning on international market entry for the Fusion Health brand with scope and route-to-market assessments under way for selected international markets.

And recently, we have entered the Middle East and South East Asia with A'kin launching on Look Fantastic, a leading on-line skincare and cosmetics retailer. in 2H 2022 and Dr. LeWinn's is now available in health and beauty retailer Watsons Saudi Arabia, Kuwait and shortly in Singapore.

[SLIDE – COST RECALIBRATION]

Lastly, the Company has recalibrated its cost base with actions already taken to realise annualised cost reductions of $3.5m at an estimated one-off cost of $0.6 million and capital expenditure of $0.9 million.

This includes:

- Realigning the business around three Commercial Business Units, resulting in a simpler organisation.
- Removing complexity by exiting loss-making Joint Ventures.
- Having a strong and focused but leaner leadership team in place, which I discussed earlier.

As you can see, we have made significant progress against all these strategic pillars and I look forward to continuing to update our shareholders in February.

[TRADING UPDATE AND GUIDANCE]

On to a trading update.

As announced early in November, we concluded there will be no material improvement in sales into China in the short-term and are not expecting any material profit from trading in China in FY22.

However, there has been a material improvement in domestic operations where Company-owned brands continue their growth trajectory into FY22.

Our domestic momentum is however being frustrated by the well-documented local and international supply chain disruptions due to several factors, mainly related to post pandemic instability. The Company is working closely with its logistics partners to address the unique challenges associated with this peak period.

Cost pressures, particularly in the well-documented areas of commodities and international freight are being addressed with urgency. We have recently submitted price increases targeted at particular Multix categories in response to the cost inflation that the market is currently experiencing.

These cost pressures and price increases were reflected in our first half and full year 2022 forecast published on 1 November 2021 where we announced total sales growth of between 8-10% for the first half of 2022 and 6-8% for the full year.

We also announced our forecast for underlying profit before tax for the FY2022 half year to be below HY21. However, we expect to deliver a $1 million to $2 million increase in underlying profit before tax for the full year 2022 v FY 2021, as we realise the positive impact of favourable FX hedging result and the full effect of various cost reduction initiatives.

[SLIDE - CASH/LIQUIDITY / DIVIDENDS]

The Group's balance sheet remains strong with net bank debt at 30 June 2022 forecast to be similar to that recorded at 30 June 2021. Based on the trading period to 31 October 2021 and the Company's visibility on the performance of core brands, underlying cash conversion is forecast to be in the range of 85% to 90% in fiscal 2022.

The Company's relatively low net bank debt will enable maintenance of its policy of paying at least 60% of underlying profit after tax as dividends, subject to other cash requirements and subject to customary approvals.

[UNIQUE CAPABILITIES]

Before handing back to Ari for the formal part of the meeting, I want to reiterate some key points.

This year has proved to be a seminal one for McPherson's. The experience across the last two years led to a deep introspective review of the company and what it needs to achieve.

This review in the context of the desired future for the company demonstrated we selected well in respect of "where to play".

The Health, Wellness and Beauty choice is a resilient one where we have strong brand and distribution capability.

We understand we have gaps in respect to “how to play”, and we are addressing these urgently, especially in the International space.

We have very strong fundamental established positions and unique capabilities.

Firstly, we have significant demand for our well-established core brands and products, driving our expected 6-8% growth in FY22 sales.

Secondly, we continue to fuel interest in these brands via strong levels of innovation, which is driving additional ranging and value to our trading partners.

Our supply chain and warehouse capacity offer an ability to further capitalize on the reach and distribution footprint our brands command, and we will selectively leverage this core capability, just as we are now doing with the introduction of our Health business to the warehouse in Kingsgrove.

In time, our strong balance sheet will allow us the flexibility to make the most of opportunities which arise.

Currently the balance sheet supports our ability to sustain difficult and unpredictable market conditions and invest behind our core brands and capabilities.

Finally, to our team, we have a rejuvenated and experienced team driving the execution of our clear focused Health, Wellness and Beauty strategy.

[SUMMARY]

Now I’ll hand you back to the Chairman for the formal part of our meeting.