McPherson's Limited 2020 Annual General Meeting
Chairman's Address – Mr. Graham Cubbin
4 November 2020

Slide 7 – Leading supplier of H, W & B

Moving now to some comments on the 2020 financial year.

It is my pleasure to report on what has been a very successful year for the company as it continues to establish its credentials as a leading supplier of Health, Wellness and Beauty brands in Australasia.

The strong financial results achieved for the year ended 30 June 2020 are a reflection of the capability and experience of our management team and board. In Laurie McAllister and his Executive Leadership Team, we have creative and talented leadership, along with a deep understanding of our various stakeholders and the markets in which we operate.

Slide 8 – "During the COVID-19 pandemic the ongoing well-being and support of our employees as they work in challenging circumstances has been, and continues to be, our highest priority"

As we have all experienced, the last nine months have presented a variety of significant challenges. During the COVID-19 pandemic the ongoing well-being and support of our employees as they work in challenging circumstances has been, and continues to be, our highest priority, consequently the company has taken every practical step possible to safeguard all our employees. Maintaining the continuity of our supply chain has also been a key focus over the COVID-19 phase, with the minimal level of disruption a testament to our close and valued relationships with our suppliers and customers.

Slide 9 – Key Financial Highlights

The Group's success in FY2020 was driven by our growth in market share across the majority of our core 6 brands – Manicare, Lady Jayne, Dr. LeWinn's, A'kin, Multix and Swisspers. Management's commitment to the strategy we outlined three years ago is evidenced in fiscal 2020 by 16% growth in total owned brand sales, 20% growth in underlying profit before tax to $22.8 million and strong underlying operating cash conversion of 103%.

A key element driving growth of owned brands is innovation. To fuel differentiation, we have increased our investment in our research and development capability with an increase in headcount of 33% in this important area in FY20. Over 200 new products were developed to support the business's brands, with an emphasis on the rapid growth skincare ranges.

This innovation in our skincare product range has been successfully leveraged through our commercial partnership with Access Brands Management (ABM), which has continued to go from strength to strength in FY20, with sales increasing 133% from $16.0 million in FY19 to $37.2 million in FY20.

In FY20 we continued to invest in medium to long term growth opportunities, with key strategic investments in the Aware Group ($3.0 million) and the Kotia, Soulful and Sugarbaby joint ventures ($2.8 million). Despite these investments, net bank debt, excluding lease liabilities, remained very low at $9.2 million, with the Group leverage ratio (Net bank debt / EBITDA) at 0.4 times to June 2020.

Three of our brands have been adversely impacted by a change in consumer demand during the COVID-19 pandemic and we anticipate that these challenges will persist into the medium term. Consequently, our FY20 results include a $10.7 million pre-tax non-cash impairment in the A'kin and Moosehead brands and our investment in the Kotia joint venture.

The Group's three 51% owned joint ventures – Kotia, Soulful and Sugarbaby - with $2.8 million seed investments in FY20, are progressing at a rate which has been stifled by COVID-19 as key customers become increasingly focused on risk averse core ranging. These ventures, together with our operations in New Zealand and Singapore, which have also been hit hard by COVID-19 lockdowns, represent areas for future improvement.

Dividend Payments

The Board's commitment to maintaining a high dividend payout ratio, and our policy to distribute at least 60 per cent of the Company's underlying profit after tax to shareholders, remains unchanged. Dividends paid for the 2020 year totalled 11.0 cents per share, fully franked, representing a 10.0 per cent increase on the prior year's total ordinary dividend of 10.0 cents per share and an underlying payout ratio of 72 per cent.

Reflections on the Board

Having renewed the Board with the appointments of Alison Mew, Grant Peck and Geoff Pearce in fiscal 2018 and 2019 we are now very well placed, with depth of experience and diversity of skills, to assist and advise Management as it continues to execute its Strategic Plan.

Slide 10 – Recent Developments

1) Strong start to FY21
2) Significant non-recurring provision for Hand Sanitiser
3) Acquisition of Global Therapeutics the first serious move into Health
4) Capital raise via $36.5m institutional placement & Share Purchase Plan.

Hand Sanitiser, current share price and future

On 20 October the Company provided a trading update outlining our strong start to the current financial year and unfortunately a significant non-recurring provision for excess hand sanitiser inventory that was acquired in response to very strong demand at the commencement of the COVID-19 pandemic. While current significant excess supply has led to this one-off write-down of hand sanitiser inventory, the Group remains in a very strong underlying trading and financial position.

GT Acquisition and capital raise

As announced last week, the acquisition of the Global Therapeutics business from Blackmores represents an exciting new chapter in the execution of our strategic plan, with our first serious move into the Health segment. The strategic merits of this acquisition have resulted in strong institutional support for the associated $36.5 million equity placement, which was heavily over-subscribed. We encourage all our investors to consider participating in the company's Share Purchase Plan announced last week which will remain open until 20 November.

The Group is well placed with a very strong balance sheet to execute further merger and acquisition opportunities. Management, supported by the board, will continue to be disciplined in its assessment of these opportunities as they arise.

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