



ASX/Media Release
19 August 2020

(ASX: MCP)

McPherson's 2020 Results

**20% increase in Underlying PBT to \$22.8m
(Statutory¹ PBT of \$13.3 million)**

Highlights

- **Underlying PBT of \$23.0 million, 33% growth on the prior corresponding period (pcp) from continuing business excluding two discontinued distribution relationships**
- **Strong balance sheet with net bank debt of \$9.2m and underlying operating cash conversion of 103%**
- **75% growth in Dr. LeWinn's sales revenue on pcp through our strategic and exclusive China facing partner ABM and strong domestic growth**
- **\$10.7 million non-cash impairments of A'kin and Moosehead brands and investment in the Kotia joint venture**

McPherson's Limited ("McPherson's" or "the Group") today announced its final audited FY20 results, which are consistent with the preliminary results released to the ASX on 28 July 2020. FY20 generated underlying profit before tax of \$22.8 million (FY19: \$19.0 million) and statutory profit before tax of \$13.3 million (FY19: \$19.0 million), with a \$10.7 million pre-tax non-cash impairment in its A'kin and Moosehead brands and its investment in the Kotia joint venture.

The Group reported an 11% increase in total sales revenue from continuing operations (excluding two discontinued distribution relationships) to \$222.1 million (FY19: \$199.3 million).

McPherson's Chief Executive Officer and Managing Director, Mr. Laurence McAllister said: "The impressive growth in sales revenue and underlying earnings combined with the strong operating cash conversion achieved in FY20, in a very challenging external environment, is testament to the consumer appeal and resilience of our market leading brands – Dr. LeWinn's, Manicare, Lady Jayne, Swisspers, A'kin and Multix.

"To complement the strength of our existing brands, the management team has been very disciplined in its assessment of numerous merger and acquisition opportunities and we are now very well placed, with a strong balance sheet and significant operational capacity, to assess and execute appropriate opportunities as they arise in what is likely to become a more favourable market for acquirers.

"The potential, transformational opportunity of an acquisition in the Health, Wellness and Beauty space is no better illustrated than the Group's acquisition of the Dr. LeWinn's brand in 2014 for approximately \$20 million. This brand has generated revenue of \$57.6 million in FY20 and is on a remarkable growth trajectory, with sales to ABM increasing from \$0.5 million in FY17 to \$37.2 million in FY20, with 133% growth in FY20."

ABM has now qualified for 51% ownership of the joint venture holding Dr. LeWinn's intellectual property registered in China, exceeding the requisite sales threshold outlined in our joint venture agreement of \$35 million in any 12 month period prior to 30 June 2022.

Livia Wang, Global President, Brands of ABM's owner Access Corporate Group commented: "Our commercial partnership with McPherson's has continued to go from strength to strength in FY20, we share a deep understanding of consumer needs, and our strong brand management is complemented by

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fantastic product innovation from the McPherson's team. Hero products in FY20 included Triple Action Day Defence, Collagen Surge Plumping Gel and the Ageless Trinity Pack. Our joint operations have adapted well to changing market dynamics due to COVID-19 and we were pleased with the outcome of the ABM 6.6 Shopping Carnival which saw 140% year-on-year growth for Dr. LeWinn's products. We are excited about the future as we continue to together develop unique and targeted innovations for our consumers."

Mr McAllister added: "Our stellar growth in the Dr. LeWinn's brand over the last four years will now be accentuated through of our joint venture with ABM. The earnings from our 49% share in this joint venture will be incremental to our existing and highly successful Dr. LeWinn's innovation capability."

Final Dividend

Directors have declared a final dividend of 7.0 cents per share (cps) fully franked (2019: 6.0 cps fully franked), payable on 24 September 2020 to shareholders on the register at 7 September 2020. The dividend reinvestment plan remains in place. Total ordinary dividends for the year will be 11.0 cps fully franked (2019: 10.0 cps fully franked), representing an underlying payout ratio of 72 per cent, noting that an interim, fully franked special dividend of 2.0 cps was also paid in March 2019. The Group's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

Category Performance

During FY20, McPherson's generated substantial growth in **skincare, haircare and bodycare brands**, with revenue increasing 59% to \$63.8 million. This was driven by strong growth in Dr. LeWinn's, in both the domestic and export channels.

McPherson's has established a partnership with Woolworths whereby a range of A'kin products will become available for purchase from October. With the growth of the natural category in grocery, A'kin will attract new shoppers to the health and beauty aisle. This is an exciting chapter for McPherson's natural beauty offering, with expansion into the grocery channel providing increased visibility and scale for the A'kin brand.

Within the **essential beauty** category sales grew 1% to \$57.3 million, with 3% growth in the Manicare brand offset by a 6% decline in sales of Lady Jayne products. The COVID-19 pandemic has led to a shift away from beauty salons to home based beauty solutions, which has resulted in improved demand for Manicare products. Sales from the Swisspers brand products were in-line with FY19.

The **household essentials and other brands** category is dominated by Multix, which is the market leader in most sub-categories. Multix achieved annual growth in sales of 4% in FY20 to \$54.1 million. The elevated COVID-19 demand for Multix food preparation, food preservation and garbage disposal products resulted in a 23% increase in 2H20 sales of Multix products in comparison with 2H19.

The termination of the Trilogy and Karen Murrell agency agreements led to a 44% decline in revenue from **Agency brands** to \$13.1 million in FY20. Key agency relationships now comprise Eylure, Dr. Wolff and Bondi Perfume.

Continued Investment in Innovation and Sustainability

McPherson's has continued to invest in its 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. Internally developed products have generated incremental contribution of approximately \$20 million over the last 4 years.



A sustainability agenda has been established and is gaining momentum with an elevated, broad focus on all elements of sustainability across the Group and relevant interactions with stakeholders.

Having a capable and sustainable supplier base is fundamental to the success of the McPherson's business model. The strength of the Group's relationships with its suppliers has come to the fore through the challenges of the COVID-19 period, with the supply chain responding very well to the requirements of our customers through this period of unpredictable demand. Having successfully transferred over 50 products from other suppliers and produced its one millionth individual product for McPherson's in May 2020, the Australian manufacturer Aware Group is now McPherson's key supplier of Dr. LeWinn's product, with approximately 50% of all Dr. LeWinn's product forecast to be sourced from Aware in FY21. In recognition of the importance of this relationship, McPherson's converted \$3 million in convertible notes in Aware to equity in October 2019 and made an additional \$3 million equity investment in Aware in FY20, increasing the total equity investment to \$6 million. McPherson's now owns 10.7% of the Aware Group.

Joint Ventures

While the FY20 underlying combined loss of \$1.9 million from the three incubation joint ventures Kotia, Soulful and Sugar Baby was above expectations, the Group will continue to progress new product launches with key retail partners for each joint venture in FY21, with a substantial improvement in financial outcomes projected. The Kotia deer milk product range has received very positive consumer feedback, however the Group's investment in the Kotia joint venture (of \$2.1 million) has been fully impaired in FY20 as market traction has been difficult to realise in the current challenging retail environment. We are fully committed to these innovative and differentiated brands for the future.

The Soulful brand, launching into the export channel in September 2020, is all about creating smart, wholesome nutrition and healthy living solutions accessible to everyone. Proudly Australian, and with a passion for health and wellbeing, the Soulful range has been developed for different stages of life offering milk powders with nutritional and immunity support via Lactoferrin and probiotics for adults and children. Soulful Director, Mr. Chris Schzeltko said "I am extremely excited about the opportunity with the Soulful brand and the partnership with McPherson's as we step into the Health & Wellness category with such an advanced line of products to help individual achieve and maintain health, wholesome lifestyles in today's challenging world."

Cash Flow and Balance Sheet

McPherson's achieved very strong operating cash conversion of 103% (excluding the impact of AASB16) in FY20 (FY19: 117%). Net bank debt, excluding lease liabilities, remains low at \$9.2 million (FY19: \$7.5 million), despite key strategic investments in the Aware Group (\$3.0 million) and the Kotia, Soulful and Sugarbaby joint ventures (\$2.7 million combined) in FY20. The Group's leverage ratio (Net bank debt excluding lease liabilities / EBITDA) is low at 0.4 times. The company's gearing ratio (Net debt excluding lease liabilities / total funds employed) was 9.3% at 30 June 2020 (FY19: 7.2%).

COVID-19 Update and Early Trading in FY21

The recent second wave of COVID-19 restrictions imposed in Melbourne has not significantly impacted McPherson's, with our key Melbourne based suppliers remaining unaffected and sales orders from Victorian based retailers relatively stable.

The high level of uncertainty regarding progression of the COVID-19 pandemic and its impact on both the global and domestic economies makes accurate forecasting of the FY21 year extremely difficult. In achieving its FY20 outcome, the Group did not compromise July's results, with trading off to an encouraging start in FY21. A further operations update will be provided at the Annual General Meeting in early November 2020.



Authorisation

This ASX announcement / media release has been authorised by the McPherson's Limited Board of Directors.

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About McPherson's Limited

McPherson's, established in 1860, is a leading supplier of Health, Wellness and Beauty products in Australasia and increasingly China, with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care and personal care items such as facial wipes, cotton pads and foot comfort products, as well as a range of kitchen essentials such as baking paper, cling wrap and aluminium foil.

McPherson's manages some significant brands for agency partners and via joint venture arrangements such as Kotia; however, the majority of revenue is derived from the company's diversified portfolio of owned market-leading brands, including Manicare, Lady Jayne, Dr. LeWinn's, A'kin, Swisspers, Multix, Moosehead and Maseur.

For further information on McPherson's business and its strategy and to view our most recent corporation video please refer to the company's website <http://www.mcphersons.com.au>

Appendix – Summary Results for FY20

Underlying results	FY20 (\$m)	FY19 (\$m)	Change (\$m)	Change (%)
Sales revenue	222.2	210.3	11.9	6%
Underlying EBIT	23.5	19.9	3.6	18%
Underlying PBT	22.8	19.0	3.8	20%
Underlying PAT	15.5	13.7	1.8	13%
Underlying EPS (cents per share)	14.6	13.0	1.6	12%
Underlying results from Continuing Operations, excluding Trilogy and Karen Murrell distribution	FY20 (\$m)	FY19 (\$m)	Change (\$m)	Change (%)
Sales revenue	222.1	199.3	22.8	11%
Underlying EBIT	23.6	18.2	5.4	30%
Underlying PBT	23.0	17.3	5.7	33%
Underlying PAT	15.7	12.5	3.2	25%
Underlying EPS (cents per share)	14.7	11.9	2.8	24%
Statutory results	FY20 (\$m)	FY19 (\$m)	Change (\$m)	Change (%)
Sales revenue	222.2	210.3	11.9	6%
EBIT *	14.4	19.9	(5.5)	(28%)
PBT **	13.3	19.0	(5.7)	(30%)
PAT ***	6.1	13.7	(7.6)	(56%)
EPS (cents per share)	5.7	13.0	(7.3)	(56%)
Net Bank Debt and cash flows	FY20 (\$m)	FY19 (\$m)	Change (\$m)	Change (%)
Net Bank Debt	9.2	7.5	1.7	24%
Net Bank Debt / (Cash) excl. JVs and Aware	(2.2)	1.6	(3.8)	(234)%
Gearing	9.3%	7.2%	2.1%	29%
Underlying operating cash conversion	103%	117%	(14%)	(12%)

*Statutory EBIT includes the following pre-tax significant items: (i) Impairment of A'kin brand (\$7.3) million; (ii) Impairment of Moosehead brand (\$1.2) million; (iii) Impairment of Investment in Kotia joint venture (\$2.2) million; and (iv) favourable impact of AASB 16 \$1.6 million.

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***Statutory PAT includes the following after-tax significant items: (i) Impairment of A'kin brand (\$7.3) million; (ii) Impairment of Moosehead brand (\$0.9) million; (iii) Impairment of Investment in Kotia joint venture (\$2.1) million; and (iv) favourable impact of AASB 16 \$0.8 million.