ASX / Media Release **(ASX: MCP)**

28 July 2020

McPherson's FY20 Preliminary Results

20% growth in underlying FY20 PBT to $22.8 million exceeds guidance of 10% growth

Statutory[1] FY20 PBT of $13.3 million

16% growth in total MCP owned brand sales driven by strong core business and 133% growth in Dr. LeWinn's sales to ABM

Highlights

- **Underlying PBT of $22.9 million, 33% growth on pcp from continuing business excluding two discontinued distribution relationships**
- **133% growth in Dr. LeWinn's export sales revenue on prior corresponding period (pcp) through our strategic and exclusive China facing partner ABM**
- **$10.6 million non-cash impairments of A'kin and Moosehead brands and Investment in the Kotia Joint Venture**
- **Strong balance sheet with net bank debt of $9.2m and underlying operating cash conversion of 96%**

Preliminary results

McPherson's Limited ("MCP", "McPherson's" or "the Group") today announced its preliminary unaudited results for the full year to 30 June 2020, generating an underlying profit before tax of $22.8 million (FY19: $19.0 million). The Group expects to report a statutory profit before tax of $13.3 million (FY19: $19.0 million), with a $10.6 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). In addition to 75% growth in sales of the Dr. LeWinn's brand, the strong result was also due to growth in other owned market leading brands Multix (4% on pcp) and Manicare (3% on pcp).

McPherson's Chief Executive Officer and Managing Director, Mr. Laurence McAllister said: "Three years ago, we established a clear strategic plan to drive sustainable and profitable growth. Our outstanding performance in 2020 illustrates the potency of this plan, driven by the broad strength and diversity of our brand portfolio. Continued stellar growth in the Dr. LeWinn's, China facing joint venture with ABM helped achieve 16% growth in our owned brand portfolio, despite a very challenging environment for our customers.

"The progression in growth of our Dr. LeWinn's sales to ABM has been remarkable, with $0.5 million in FY17, $3.3m in FY18, $16.0 million in FY19 and now $37.2 million in FY20." ABM has now comfortably qualified for 51% ownership of the 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.

[1] Statutory PBT 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 ($2.1) million and (iv) favourable impact of AASB 16 $1.1 million.

Mr. McAllister added: “McPherson’s is excited about the next phase of our successful partnership with ABM as we continue the rapid growth trajectory of our existing products and jointly develop new products to be owned by our venture and specifically tailored for the Chinese consumer.”

The FY2020 result benefited from strong demand for McPherson’s Multix brand, as people spend more time in their homes and change behaviour with an increased focus on baking, freezing, home cleaning and personal hygiene.

Covid-19 Update

The proactive actions taken by the Company since the covid-19 pandemic was declared were promptly established to safeguard all our employees in Asia Pacific. The ongoing well-being and support of our employees as they work in challenging circumstances is our highest priority.

Mr. McAllister said, “The dedication and resilience of McPherson’s employees has been outstanding. I’m so grateful to our team members and their families for their commitment to their own safety and that of their colleagues and the broader community. I have no doubt that McPherson’s will emerge from this crisis as a stronger company.”

McPherson’s supply chain, managed by the Group’s teams in Hong Kong and Sydney, has operated without significant disruption over the covid-19 period, with Management striving to increase safety stock levels as a precaution to protect against any future, additional waves of pandemic disruption. Independent manufacturing facility Aware Group continues to positively support McPherson’s to ensure sustainable product supply.

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.

Brand and Investment Impairments

Amidst our broad portfolio of brands, three 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. Retailer scan data indicates that the Natural Skincare and Haircare categories have declined 7% and 2% respectively over the year to June 2020, impacting the A’kin and Kotia brands. Consequently, the FY20 results include the non-cash impairment of the A’kin ($7.3 million) and Moosehead ($1.2 million) brands, both of which have been fully impaired. The Kotia Deer Milk product has received very positive consumer feedback, however the Group’s investment in the Kotia Joint Venture ($2.1 million) has also been fully impaired, as market traction has been difficult to realise in the current challenging environment. We are fully committed to these innovative and differentiated brands for the future.

Strong cash flow and balance sheet

The Group’s FY20 operating cashflow before interest and tax was $24.7 million, representing strong underlying operating cash conversion of 96%. Key strategic investments in the Aware Group ($3.0 million) and the Kotia, Soulful and Sugarbaby joint ventures ($2.8 million) were made in FY20. Despite these investments, net bank debt, excluding lease liabilities, remains very low at $9.2 million, with the Group leverage ratio (Net bank debt / EBITDA) at 0.4 times.

Underlying results	**FY20 ($m)**	**FY19 ($m)**	**Change ($m)**	**Change (%)**
Sales revenue	222.2	210.3	11.9	6%
Underlying EBIT	23.4	19.9	3.5	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	29%
Underlying PBT	22.9	17.3	5.6	33%
Underlying PAT	15.6	12.5	3.1	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)	(27%)
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	23%
Net Bank Debt / (Cash) excl. JVs and Aware	(2.5)	1.6	(4.1)	(256)%
Gearing	9.2%	7.1%	2.1%	30%
Underlying operating cash conversion	96%	117%	(29%)	(25%)

*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 ($2.1) million and (iv) favourable impact of AASB 16 $1.6 million.

**Statutory PBT 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 ($2.1) million and (iv) favourable impact of AASB 16 $1.1 million.

***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.

New Business Development

Over the last twelve months, the Group's New Business Development Team has applied rigorous criteria to assess three significant acquisition opportunities and over twenty start up merger and acquisition opportunities. After careful consideration, none of these were progressed for a variety of reasons, including unrealistic vendor valuation expectations, unacceptable risk profiles and sub-optimal strategic alignment. Consequently, the Group is now well placed with a very strong balance sheet to execute appropriate new merger and acquisition opportunities in the post covid-19 environment. The Group will continue to be disciplined in its assessment of merger and acquisition opportunities as they arise.

Refinancing of Group Debt Facility

The Group recently established a three year debt facility with the support of its existing lenders, Westpac and National Australia Bank. The $47.5 million facility, expiring 30 June 2023, comprises a $35.0 million revolving working capital facility, $10.0 million acquisition facility and $2.5 million ancillary document facility. The Group has comfortable headroom within its covenant structure.

FY20 Final Dividend

McPherson's Board has given preliminary consideration to the FY20 final dividend and, subject to completion of the audited FY20 financial statements, anticipates declaring an ordinary, fully franked final dividend of 7.0 cents per share (cps). Based on preliminary FY20 underlying basic earnings per share of 14.6 cents, this would represent total FY20 ordinary dividends of 11.0 cps or a payout ratio of 75%. The Group's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

The company will be webcasting its Full Year 2020 Results Presentation on Wednesday 19 August at 11:00am, with details of the webcast to be posted on the ASX shortly.

Authorisation

This ASX announcement and 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