



ASX/Media Release
18 August 2021

(ASX: MCP)

McPherson's FY2021 Results

Summary – Financial Results

- **Results are in-line with guidance provided on 29 April 2021** with FY21 sales revenue of \$200.5 million and underlying EBIT of \$11.3 million, despite a significant decline in sales of Dr LeWinn's to China.
- **Statutory loss before interest and tax of \$3.3 million**, impacted by \$6.7 million provision for unsaleable hand sanitiser, \$5.0 million impairment of investments in joint ventures, \$1.9 million defence advisory fees and other significant, non-recurring items.
- **Solid growth in domestic sales, with 9% increase in sales of company owned brands**, supported by channel mix, marketing initiatives and improved customer engagement.
- **Strong balance sheet**, with net bank debt of \$8.4m and underlying operating cash conversion of 108%
- **Final dividend** of 1.5 cents per share (cps) fully franked, payable on 23 September 2021

Summary Strategy Progress & Outlook

- Progressed execution of **operational & strategic initiatives** announced on 19 May 2021 with measured urgency
- **Resetting and transforming the business:**
 - Realigned business with the establishment of three Commercial Business Units to drive focussed accountability and profitability
 - Rationalised partnership agreements with decision to exit three joint ventures in FY22
 - Implemented a leaner, more aligned Senior Leadership Team
- **Cost reduction initiatives:** Over \$2 million in savings to be delivered in FY22
- **Board and MD refresh:** New Chairman and Managing Director appointed. The process for appointing a new Non-Executive Director is underway.
- **Improved underlying EBIT and EPS anticipated in FY22**, subject to Dr. LeWinn's returning to growth and no significant interruption of supply chain or significant economic impact resulting from COVID lockdowns

McPherson's Limited ("McPherson's" or "the Company") today announced its FY21 results, with sales and EBIT within the guidance ranges provided in the trading update released to the ASX on 29 April 2021. The Company has reported FY21 underlying earnings before interest and tax of \$11.3 million (FY20: \$25.1 million) and a statutory loss before interest and tax of (\$3.3) million¹ (FY20 profit before tax: \$14.4 million²). An FY21 & FY20 Results Summary is provided as Appendix 1.

The Company reported a 10% decrease in sales revenue to \$200.5 million (FY20: \$222.2 million). However, sales revenue increased by 5% from \$185.0 million in FY20 to \$193.8 million in FY21 (excluding the decline in sales to ABM, the Company's China facing customer for the Dr. LeWinn's brand, from \$37.2 million in FY20 to \$6.7 million in FY21). This was driven by strong domestic growth in the Company's

¹ FY21 Statutory LBIT includes the following pre-tax significant items: (i) Inventory provision for hand sanitisers (\$6.7) million; (ii) Impairment of investments in joint ventures, shareholder loans and receivables (\$5.0) million; (iii) Takeover response advisory fees (\$1.9) million; (iv) Acquisition costs in relation to the Fusion Health and Oriental Botanicals brands (\$0.9) million; (v) Cash salary, fee package and non-cash expense for unvested performance rights for the resignation of the previous Managing Director (\$1.5) million; (vi) Due diligence costs on other potential acquisition targets (\$0.3) million; and (vii) Release of contingent consideration for the My Kart (Soulful) joint venture \$1.8 million.

² FY20 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; and (iii) Impairment of Investment in Kotia joint venture (\$2.2) million.



owned Beauty brands, Manicare, Lady Jayne, A'kin and Swisspers and \$9.5 million in sales from the Fusion Health and Oriental Botanicals brands acquired on 30 November 2020.

McPherson's Chief Executive Officer and Managing Director, Mr. Grant Peck said: "The Company's FY21 results reported today are disappointing and the management team and board take full responsibility for them. McPherson's has a high quality suite of brands, marketing capabilities and strong customer relationships that we must refocus on to increase profitable growth to our business. We recently completed a thorough operational review of our business, which we are executing at speed. I'm confident the potential of our people, our core capabilities and the strength of our brand portfolio will be realised through this process and will reflect in improved financial outcomes for our shareholders."

Operational review update

Mr. Peck said: "McPherson's operates in a highly attractive and growing industry worth over \$15 billion³ at retail sales value and has the potential to grow market share. The initiatives resulting from our operational review will simplify our business, drive efficiencies and assist in returning the Company to growth. We are now laser focused on executing these initiatives, across four key areas, targeted to deliver \$300 million in total sales and \$50 million in total EBIT by FY26, and have already made significant progress."

Four key strategic pillars:

- Continued focus on core owned brands and key domestic channels;
- Establish health & wellness as a new growth platform;
- Expand international footprint; and
- Recalibrate cost base.

The following actions have been taken to progress these outcomes.

1. *Established Commercial Business Units (CBUs)*
Realigned business by establishing three CBUs, each with individual responsibility for marketing, sales and profit accountability. Consistent with the operational review outcomes, these CBUs are (i) ANZ Beauty and Household; (ii) International; and (iii) Health. Each CBU is led by a Commercial Director (Senior Leadership Team member) who is accountable for revenue and profit targets, customer relationships and commercial delivery. An outline of the CBU structure is attached as Appendix 2.
2. *Exiting loss-making Joint Ventures*
Well progressed in exiting three joint ventures – Kotia, Soulful (My Kart) and Sugarbaby. This will simplify the Company's business model and improve focus on the profitable core brands.
3. *Leaner and more focused Senior Leadership Team*
Consistent with the Company's focus on its core brands, the establishment of three CBU's, and the completion of the acquisition of the Fusion Health and Oriental Botanicals brands, three positions have been removed from the Senior Leadership Team and will be exiting the business.
4. *Reviewing distribution in Greater China*
McPherson's and ABM recognise the uncertainty that currently exists with cross-border e-commerce distribution into China. With reduced daigou-inspired demand evident in the market, together with continued COVID lockdowns, the Company believes that beauty products will continue to experience suppressed demand in the medium term. Both McPherson's and ABM continue to work through excess inventory associated with this slowdown and are now reviewing the ongoing nature of their arrangements in this market, given the considerable changes in the

³ Source: Health, Wellness and Beauty Market size defined using IRI MarketEdge based on Health, Wellness & Beauty definitions provided by the Company.



trading environment since the commencement of the relationship. Both parties are committed to the Dr. LeWinn's brand and its future in this important market and will continue to explore all channel opportunities in China.

5. *Cost base recalibration*

Management estimates operating cost reductions of at least \$2 million in FY22. In addition to the cost reduction associated with the leaner Senior Leadership Team, supplier negotiations, including reduced warehousing and distribution costs, will result in further cost reductions.

6. *Capital Management review and consideration*

Several capital management initiatives have been explored with the assistance of external advisors. While a return of capital, structured to optimise outcomes for shareholders, remains an option, it is considered prudent to defer any decision to return capital while there is a high level of uncertainty in the market due to COVID-19 impacts in the markets in which we operate.

FY21 Category Performance

During FY21, McPherson's generated substantial growth in its **essential beauty** category where sales grew 15% to \$66.6 million, driven by 40% growth in sales of Lady Jayne products, 13% growth in Manicare and 4% growth in Swisspers. The COVID-19 pandemic has led to a shift away from beauty salons to home based beauty solutions which, in combination with successful new product innovation, has resulted in improved demand for all of the Company's core essential beauty products.

The significant decline in export sales of Dr. LeWinn's resulted in a decline in **skincare, haircare and bodycare brands** revenue of 51% to \$30.9 million. However, positively, sales of A'kin products increased by 11%, largely due to a new partnership with a key retailer in Australia to range a focussed selection of haircare products from November 2020. Incremental ranging of a further five A'kin skincare products will commence before the end of August 2021.

The Dr. LeWinn's brand continues to have strong recognition in China as evidenced by in-market sales data. The fact that this growth, off a zero base in 2016, has been achieved by accessing one relatively narrow channel to date, indicates the significant potential for Dr. LeWinn's in China as it expands into other channels.

The **household essentials and other brands** category is dominated by Multix, which is the market leader in most sub-categories of bags, wraps and foils in the grocery channel. Multix sales declined by 8% in FY21 to \$49.9 million, largely due to ranging losses in the kitchen tidy bag category in one major grocery retailer. Multix is responding to recent ranging losses by further strengthening its sustainability range of products across all segments.

Acquisition of Fusion Health and Oriental Botanicals

On 27 October 2020, McPherson's announced the acquisition of the premium Fusion Health and Oriental Botanicals brands from Blackmores, with effect from 1 December 2020. These brands provide a broad range of Western and Oriental herbal and complementary medicine formulations to consumers based in Australia and New Zealand.

The newly formed Health Division is underpinned by a highly qualified and aligned team with deep health food store and pharmacy distribution experience who have transitioned well into the new McPherson's health and wellness strategy.

The Fusion Health and Oriental Botanicals brands contributed \$9.5 million in sales in FY21. When acquired, the in-market performance of these brands was being adversely impacted by stock shortages due to a known pre-acquisition fire at one of its major suppliers. Alternative sources of supply have been progressively secured over the last eight months, with the out-of-stock position almost eliminated.



Investment in Aware Environmental Limited

Reduced demand of Aware Environmental Limited's ("AEL") products, particularly from Chinese consumers, as a result of COVID-19, has resulted in a significant deterioration in AEL's financial outlook. As a measure of conservatism, having reflected an impairment of \$4.0 million in 1H21, McPherson's has fully impaired its \$6.0 million investment in AEL at 30 June 2021, with a further \$2.0 million impairment in 2H 2021. This impairment is reflected as a reduction in the non-current asset "Financial asset at fair value through other comprehensive income" and a reduction in Reserves. It does not impact the Company's profit and loss statement, nor McPherson's product supply from AEL.

Cash Flow and Balance Sheet

McPherson's has a strong balance sheet. The Company achieved underlying operating cash conversion of 108% in FY21 (FY20: 88%), excluding the impact of significant non-recurring items. Net bank debt, excluding lease liabilities, remains low at \$8.4 million (FY20: \$9.2 million). The Company's leverage ratio (net bank debt excluding lease liabilities / EBITDA) also remains low at 0.5 times (FY20: 0.3). The company's gearing ratio (Net bank debt excluding lease liabilities / total funds employed) was 6.7% at 30 June 2021 (FY20: 9.3%).

Final Dividend

Directors have declared a final dividend of 1.5cps fully franked (2020: 7.0 cps fully franked), payable on 23 September 2021 to shareholders on the register at 6 September 2021. Given the Company's strong balance sheet, the dividend reinvestment plan remains suspended. Total ordinary dividends for the year will be 5.0 cps fully franked (2020: 11.0 cps fully franked), representing an underlying payout ratio of 99%. The Company's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

COVID-19 Update and FY22 expectations

The current COVID-19 lockdown phase impacting most of Australia's population has not had a material impact on the Company's supply chain or demand for its products over the first six weeks of FY22. Many of the Company's core brands such as Manicare, Lady Jayne, Swisspers and Multix cater directly to household consumption needs, which typically experience increased demand in lockdown.

However given the severity of the current outbreak and the likely extended length of this lockdown phase, there is an elevated risk that our supply chain may be adversely impacted or a broader decline in demand across the economy may impact the Company. In the absence of these risks being realised, given the operational review actions outlined above, Management is optimistic that FY22 performance will represent an improvement on FY21, subject to the China market for Dr. LeWinn's returning to growth and no significant interruption of supply chain or significant economic impact resulting from COVID lockdowns.

Mr. Peck concluded: "Guided by a clear strategy, which prioritises simplification and leveraging our competitive advantage and market leading brands, we are confident that McPherson's can return to growth and expand market share in Health, Wellness and Beauty. While the current economic environment remains challenging, management is focusing on elements within its control to put McPherson's in the best position possible to achieve our long-term targets."

A further operations update will be provided at the Annual General Meeting on 23 November 2021.

Authorisation

This ASX 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 with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care, vitamins, supplements, 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 revenue is primarily derived from its diversified portfolio of owned, market-leading brands, including Dr. LeWinn's, A'kin, Manicare, Lady Jayne, Swisspers, Multix, Fusion Health, Oriental Botanicals, Moosehead and Maseur. McPherson's also manages a small number of brands for agency partners and via joint venture arrangements.

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 1 – FY21 & FY20 Results Summary

Underlying results	FY21 (\$m)	FY20 (\$m)	Change (\$m)	Change (%)
Sales revenue	200.5	222.2	(21.7)	(10%)
Underlying EBIT	11.3	25.1	(13.8)	(55%)
Underlying PBT	10.1	24.0	(13.9)	(58%)
Underlying PAT	6.5	16.3	(9.8)	(60%)
Underlying EPS (cents per share)	5.4	15.3	(9.9)	(65%)
Statutory results	FY21 (\$m)	FY20 (\$m)	Change (\$m)	Change (%)
Sales revenue	200.5	222.2	(21.7)	(10%)
(LBIT) / EBIT *	(3.3)	14.4	(17.7)	(123%)
(LBT) / PBT *	(4.5)	13.3	(17.8)	(133%)
(LAT) / PAT **	(5.0)	6.1	(11.1)	(183%)
EPS (cents per share)	(4.2)	5.7	(9.9)	(174%)
Net Bank Debt and cash flows	FY21 (\$m)	FY20 (\$m)	Change (\$m & %)	Change (%)
Net Bank Debt	8.4	9.2	(0.8)	(9%)
Gearing	6.8%	9.3%	(2.6%)	(28%)
Underlying operating cash conversion	108%	88%	20%	23%

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**FY21 Statutory LAT includes the following after-tax significant items: (i) Inventory provision for hand sanitisers (\$4.8) million; (ii) Impairment of investments in Joint Ventures, shareholder loans and receivables (\$4.8) million; (iii) Takeover response advisory fees (\$1.4) million; (iv) Acquisition costs in relation to the Fusion Health and Oriental Botanicals brands (\$0.9) million; (v) Cash salary, fee package and non-cash expense for unvested performance rights for the resignation of the previous Managing Director (\$1.3) million; (vi) Due diligence costs on other acquisition targets (\$0.2) million; and (vii) Release of contingent consideration for the My Kart joint venture \$1.8 million.

FY20 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; and (iii) Impairment of Investment in Kotia joint venture (\$2.1) million.



Appendix 2 – Outline of Commercial Business Unit (CBU) Structure

<u>CBU</u>	<u>Brands</u>	<u>Geographies</u>	<u>Direct Marketing Accountability</u>
<u>ANZ</u>	<u>All brands except Health brands</u>	<u>Australia, New Zealand, PNG & Pacific Islands</u>	<u>Manicare, Lady Jayne, Swisspers, Multix, Moosehead, Maseur and other brands not outlined below</u>
<u>International</u>	<u>All brands</u>	<u>All international geographies, excluding Australia, New Zealand, PNG & Pacific Island</u>	<u>Dr. LeWinn's & A'kin</u>
<u>Health</u>	<u>Fusion Health, Oriental Botanicals & Happy Flora sold to Health stores</u>	<u>Australia, New Zealand, PNG & Pacific Island</u>	<u>Fusion Health & Oriental Botanicals</u>