Health
Wellness
Beauty

ASX Release

25 August 2022

McPherson's FY2022 Results

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Summary – Financial Results

- **Results consistent with the Preliminary Results Release on 28 July 2022**
- **Sales revenue** increased 7% to $214.0 million (FY21: $200.5 million)
- **Underlying Profit Before Tax (PBT)** increased 11% to $10.7 million (FY21: $9.6m)
- **Statutory PBT** of $0.4 million[1] (FY21: Loss Before Tax (LBT) $4.9m)[1]
- **Strong balance sheet** with net bank debt of $1.7 million and gearing of 1%
- **Final dividend** of 2.0 cents per share (cps) fully franked, payable on 23 September 2022
- **Full year dividend** of 5.0 cps fully franked (FY21: 5.0 cps)

McPherson's Limited ("McPherson's" or "the Company") Chief Executive Officer and Managing Director, Grant Peck said: "We achieved 11% organic growth in owned brand sales in the domestic market, driven by double digit growth in Manicare, Lady Jayne, Swisspers and Multix, demonstrating the resilience of the business, and the strength of these brands.

"Protracted increases in commodity prices and sea freight costs constrained underlying profitability during the year. While selling price increases were processed in 2H22, these have not been sufficient to offset the impact of rising costs. Further selling price increases across the majority of the Company's owned brands are in market and planned during FY23."

"Double-digit growth in both owned brand sales and underlying profitability was driven by our highly capable team bringing innovative new products to market, sustaining strong customer relationships and maintaining a reliable and efficient fulfilment process."

"The ability of our Company to generate strong cashflow was demonstrated again in FY22. Our low level of net bank debt has us well placed in the current economic cycle."

FY22 Commercial Business Unit (CBU) Performance

Australian and New Zealand - Beauty and Household Consumables (ANZ CBU)

The ANZ CBU comprises the Company's Beauty and Household Consumable brands sold into the Australian and New Zealand Markets.

Underlying results	FY22 ($m)	FY21 ($m)	Change ($m)	Change (%)
Sales revenue	187.7	178.4	9.3	5%
Underlying EBIT	16.1	16.5	(0.4)	(2%)

The 5% increase in ANZ CBU sales was driven by an 11% increase in sales of owned brand products. This growth was achieved due to growth in market share in four of the six core categories in which the Company operates.

The Company's Essential Beauty brands experienced strong double-digit growth in sales and Multix grew by 10%. Domestic Skincare sales grew by 6%, with Dr. LeWinn's growing by 8% and A'kin declining marginally. Sales of lower margin agency and private label products declined by 16% and 25% respectively, as the Company continued to deliberately focus on owned brands.

[1] The material items included in FY22 statutory PBT and FY21 statutory LBT are outlined in the Appendix.

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The favourable contribution of strong growth in owned brand sales was offset by material cost increases in raw materials and sea freight, which increased by $4.4 million (31%) and $3.5 million (164%) respectively in FY22 compared with the prior year. The cost of resin and aluminium, which are key inputs in the manufacture of Multix products, were adversely impacted by escalations in the price of oil, natural gas and electricity.

In response to these cost pressures, selling prices were increased for a broad range of Multix products in 2H22, with further selling price adjustments planned for FY23 across most core brands.

Operating expenses increased by $2.0 million (4%) from $55.6 million in FY21 to $57.6 million in FY22, the primary areas of increase being additional advertising and promotional investment ($1.5 million) and higher freight and delivery costs to customers ($0.7 million).

Health CBU

The Health CBU comprises the Company's Health brands sold into the Australian and New Zealand markets, the dominant brand being Fusion, which was acquired with Oriental Botanicals on 30 November 2020.

Underlying results	FY22 ($m)	FY21 ($m)	Change ($m)	Change (%)
Sales revenue	18.4	9.7	8.7	90%
Underlying EBIT	3.4	1.5	1.9	127%

The 90% growth in Health CBU sales reflects the Company's first full year of ownership of the Fusion and Oriental Botanicals brands. Despite a difficult first half for the Health business with many health stores closed for extended periods due to COVID-19 lockdowns, like-for-like sales growth of 19% was achieved in 2H22, driven by 26% growth in Fusion.

The Fusion brand has previously had relatively narrow distribution in the domestic Pharmacy channel, in comparison to the Company's other core brands, and is one of the key beneficiaries of the new strategic alliance with Chemist Warehouse, announced on 24 March 2022.

The overall contribution margin was unchanged in FY22 at 56%. Operating expenses increased by 76% from $3.9 million in FY21 to $6.9 million in FY22, reflecting the first full year of operations in FY22 and investments in new product development along with advertising and promotional spend to drive future growth.

International CBU

The International CBU comprises the Company's brands sold into geographies other than Australia and New Zealand.

Underlying results	FY22 ($m)	FY21 ($m)	Change ($m)	Change (%)
Sales revenue	7.9	12.4	(4.5)	(36%)
Underlying LBIT	(2.6)	(1.7)	(0.9)	(53%)

The 36% decline in International CBU sales was largely due to the $4.2 million decline in sales of Dr. LeWinn's product into China from $6.7 million in FY21 to $2.5 million in FY22. Trading conditions in the cross-border e-commerce channel continued to be challenging in FY22 as the Company transitions to a more diversified channel strategy. The Company has made positive progress in defining its strategy map for restoring growth in its international markets, with a priority on establishing a broader digital path-to-purchase for its consumers.

Sales in the Singapore market and surrounding regions declined by $0.3 million from $4.1 million in FY21 to $3.8 million in FY22, as COVID-19 had a significant impact on in-bound tourism.

The overall contribution margin declined from 44% in FY21 to 37% in FY22 as the Company cleared excess Dr. LeWinn's inventory at lower margins. Operating expenses decreased by 23% from $7.2 million in FY21 to $5.5 million in FY22, the primary area of reduction being advertising and promotion.

The FY22 financial statements include a one-off provision of $9.4 million in relation to excess Dr. LeWinn's inventory (and associated costs) that was sourced in 2019 and 2020 specifically to satisfy anticipated demand from China. Progress has been made in actioning this excess inventory with $3.4 million either sold or disposed of in the seven months ended 30 June 22.

Cash Flow and Net Debt

The Company achieved strong underlying cash conversion of 129% in FY22 (FY21: 110%), largely due to a $7.9 million reduction in trade receivables. Net debt, excluding lease liabilities, remains low at $1.7 million and the Company's gearing ratio (net bank debt excluding lease liabilities / total funds employed) was 1% at 30 June 2022 (30 June 2021: 7%).

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Final Dividend and Capital Management

Given the Company's strong balance sheet and franking credit balance, the Board has declared a final dividend of 2.0 cps fully franked (FY21: 1.5 cps), with a record date of 6 September 2022 and payable to shareholders on 23 September 2022. Total ordinary dividends for the year will be 5.0 cps fully franked (FY21: 5.0 cps fully franked), representing an underlying payout ratio of 97%.

The Company's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

Given the Company's low level of net debt, the Board will consider capital management initiatives in conjunction with the upcoming debt facility review in 1H23, remaining cognisant of evolving macro-economic conditions and business requirements.

Outlook

Management remains confident in its ability to deliver continuing growth into the future. However, given changes in the current macro environment and prevailing uncertain trading conditions, the Company believes it is inappropriate to, and is not providing any guidance, including in relation to the previous long term targets outlined in the May 2021 review.

Mr Peck added: "McPherson's is well placed to continue to grow in a consistent manner into the future. We operate in the growing Health, Wellness and Beauty sectors, with a portfolio of well recognised and respected brands.

"We remain confident in our ability to drive continued growth through customer, channel and category expansion, enabled by targeted investment in innovation and an enhanced and capable leadership team."

Authorisation

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

For further information please contact:

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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 Manicare, Lady Jayne, Swisspers, Dr. LeWinn's, A'kin, Multix, Fusion Health, Oriental Botanicals, Moosehead and Maseur. McPherson's also manages several brands for agency partners, including brands owned by Chemist Warehouse that the Company distributes as part of our Strategic Alliance. For further information on McPherson's business and its strategy and to view the most recent corporation video please refer to the Company's website https://www.mcphersons.com.au

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Appendix – FY22 & FY21 Results Summary

Underlying results	FY22 ($m)	FY21 ($m)	Change ($m)	Change (%)
Sales revenue	214.0	200.5	13.5	7%
ANZ underlying EBIT	16.1	16.5	(0.4)	(2%)
Health underlying EBIT	3.4	1.5	1.9	127%
International underlying EBIT	(2.6)	(1.7)	(0.9)	(53%)
Unallocated expenses	(5.1)	(5.5)	0.4	7%
Underlying EBIT	11.8	10.8	1.0	9%
Underlying PBT	10.7	9.6	1.1	11%
Underlying PAT	7.0	6.2	0.8	13%
Underlying EPS (cents per share)	5.4	5.1	0.3	6%

Statutory results	FY22 ($m)	FY21 ($m)	Change ($m)	Change (%)
Sales revenue	214.0	200.5	13.5	7%
EBIT / (LBIT) *	1.6	(3.7)	5.3	N/M
PBT / (LBT) *	0.4	(4.9)	5.3	N/M
PAT / (LAT) **	0.3	(5.4)	5.7	N/M
EPS / (LPS) (cents per share)	0.3	(4.4)	4.7	N/M

Net Bank Debt and cash flows	FY22 ($m)	FY21 ($m)	Change ($m)	Change (%)
Net Bank Debt	1.7	8.4	(6.7)	(79%)
Gearing	1.4%	6.8%	(5.4%)	(79%)
Underlying operating cash conversion	129%	110%	19%	17%

N/M – Results changed from a loss position to a profit position, % change not considered meaningful.

*FY22 Statutory EBIT and PBT includes the following pre-tax material items: (i) Dr. LeWinn's inventory provision ($9.4) million; (ii) Restructuring costs ($0.6) million; (iii) Chemist Warehouse Strategic Alliance establishment expenses ($0.6) million; and (iv) Other items including reversal of estimated joint venture costs $0.3 million.

FY21 Statutory LBIT (Loss Before Interest and Tax) and LBT (Loss Before Tax) includes the following pre-tax material items: (i) Provision for OzGuard hand sanitisers ($6.7m); (ii) Impairment of investments in joint ventures, shareholder loans and receivables (5.0m); (iii) Payments in relation to termination of employment of former Managing Director ($1.5m); (iv) Takeover response advisory fees ($1.9m); (v) Acquisition costs in relation to Fusion Health and Oriental Botanicals brands ($0.9m); (vi) Release of contingent consideration in relation to the My Kart joint venture $1.8m; and (vii) Due diligence costs on other acquisition targets ($0.3m).

**FY22 Statutory PAT includes the following after-tax material items: (i) Dr. LeWinn's inventory provision ($6.6) million; (ii) Restructuring costs ($0.3) million; (iii) Chemist Warehouse Strategic Alliance establishment expenses ($0.4) million; and (iv) Other items including reversal of estimated joint venture costs $0.7 million.

FY21 Statutory LAT (Loss After Tax) includes the following after-tax material items: (i) Provision for OzGuard hand sanitisers ($4.8m); (ii) Impairment of investments in joint ventures, shareholder loans and receivables (4.8m); (iii) Payments in relation to termination of employment of former Managing Director ($1.3m); (iv) Takeover response advisory fees ($1.4m); (v) Acquisition costs in relation to Fusion Health and Oriental Botanicals brands ($0.9m); (vi) Release of contingent consideration in relation to the My Kart joint venture $1.8m; and (vii) Due diligence costs on other acquisition targets ($0.2m).

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