McPHERSON'S
Est. 1860

Health
Wellness
Beauty

ASX Release

13 March 2023

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McPherson's 1H23 Results

Summary – Financial Results

- **Underlying results consistent with the Preliminary Results released on 17 January 2023**
- **Sales revenue** increased 3% to $112.0 million (1H22: $108.8 million)
- **Underlying EBITDA** down 11% to $8.9 million (1H22 $10.0 million)
- **Underlying Profit Before Tax (PBT)** decreased 24% to $5.1 million (1H22: $6.7 million)
- **Statutory PBT** of $1.0 million[1] (1H22: Loss Before Tax (LBT) $3.0 million)[1]
- **Non-cash impairments** of $3.9 million to the Multix brand and $1.0 million to other brands.
- **Strong balance sheet** with net bank debt of $13.9 million and gearing of 10%
- **Interim dividend** of 2.0 cents per share (cps) fully franked, payable on 6 April 2023

McPherson's Limited ("McPherson's" or "the Company") Chief Executive Officer and Managing Director Grant Peck said: "The Company's 1H23 performance reflects divergent results in our core brand portfolio and key channels of pharmacy and grocery. We recorded double-digit growth in sales of our essential beauty brands, Swisspers, Lady Jayne and Manicare and 30% growth in sales of the Fusion Health brand. However, a 6% decline in sales of Multix during the half as well as a 32% decline in sales of A'kin, largely offset these gains, resulting in a 3% overall increase in revenue for the half.

"Reduced sales and margins in the grocery channel, where the company's Multix brand is sold, was the key driver of the decline in 1H23 underlying profit before tax, and adversely impacted the carrying value of the brand. The weak consumer environment, higher sea freight charges and raw material cost pressures compounded the impact on profitability.

"Despite the challenging environment, the strength of new product innovation and consumer relationships led to 16% growth in sales in the domestic pharmacy channel, where the Company's essential beauty, skincare and health brands are distributed.

"During the half, the ANZ business invested $1.7 million in incremental advertising and promotion activity to drive growth in its essential beauty brands, Manicare and Lady Jayne, and support the expanded distribution of the Fusion brand.

"While it is positive that we are seeing signs of sea freight and raw material costs decreasing, and these will take time to flow through the supply chain and current inventories, the broader economic environment clearly remains uncertain in the medium term.

"We have a robust balance sheet and our gearing remains low, positioning us well in the current economic cycle."

1H23 Commercial Business Unit (CBU) Performance

Australian and New Zealand (ANZ)

Following the integration of our Health business into the larger Beauty business during 1H23, the ANZ CBU now comprises all sales made to customers in the Australian and New Zealand markets. The 1H22 comparative figures have been restated to combine the previously separate ANZ and Health CBUs.

[1] The specific material items included in 1H23 and 1H22 statutory LBT are outlined in the Appendix.

Underlying results	1H23 ($m)	1H22 ($m)	Change ($m)	Change (%)
Sales revenue	107.1	105.1	2.0	2%
Underlying EBITDA*	11.6	13.6	(2.0)	(15%)

** EBITDA: Earnings before interest, tax, depreciation, amortisation and impairment.*

Integrating these businesses resulted in cost efficiencies by combining the selling, distribution and administration functions of these previously separate units.

The 2% increase in ANZ sales was driven by a 7% increase in sales of owned brand products. This was achieved due to growth in market share in four of the seven core categories in which the Company operates.

The three core essential beauty brands – Manicare, Lady Jayne and Swisspers – all recorded strong double-digit growth in sales, while health brands grew by 17%, driven by 30% growth in sales of the Fusion Health brand. The Company's Strategic Alliance with Chemist Warehouse contributed to a 16% growth in sales in the Pharmacy channel through new ranging of the Fusion Health brand and increased ranging and performance of the Company's essential beauty brands.

Domestic skincare sales declined by 7%, with Dr. LeWinn's growing marginally and A'kin declining by 32% due in part to range deletions in the grocery channel. Sales of agency products increased by 8%, partly due to the exclusive distribution agreement with Chemist Warehouse. Private label sales declined by 59%, as the Company consciously reduced its participation in the low-margin bags, wraps and foils segment.

The favourable contribution from strong growth in the Company's essential beauty and health brands was offset by (i) Multix volume declines, impacting the brand's contribution by $0.9 million. (ii) a $0.9 million increase in sea freight costs and (iii) a $0.8 million increase in raw material costs. The Company's $A/$US hedging program more than offset the negative impact of $A/$US depreciation during 1H23.

Recent substantial reductions in sea freight costs and stabilisation of raw material costs are expected to result in materially improved margins albeit once current inventories have been depleted.

Underlying operating expenses, excluding depreciation, amortisation and impairment, increased by $2.7 million (9%) from $29.7 million in 1H22 to $32.4 million in 1H23. As noted above, an additional $1.7 million was invested in advertising and promotion primarily to support growth in the Fusion Health and essential beauty brands and travel expenses increased by $0.4 million post Covid enforced lockdowns.

Advertising and promotion investment in 2H23 is expected to be in line with prior year.

International CBU

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

Underlying results	1H23 ($m)	1H22 ($m)	Change ($m)	Change (%)
Sales revenue	4.9	3.7	1.2	32%
Underlying LBITDA*	(0.3)	(0.9)	0.6	67%

** LBITDA: Losses before interest, tax, depreciation, amortisation and impairment.*

A $1.0 million increase in sales of Dr LeWinn's products in China, totalling $2.4 million in 1H23, largely drove the 32% increase in International CBU sales. While the Company has continued its transition to a more diversified channel strategy, trading conditions in the cross-border e-commerce channel were constrained by limited access to the Chinese market. The establishment of a broader digital path-to-purchase for the Chinese consumer remains a key priority. Sales in the Singapore market and surrounding regions increased by $0.1 million from $1.9 million in 1H22 to $2.0 million in 1H23.

Contribution margin increased from 42% in 1H22 to 44% in 1H23, while operating expenses, were unchanged at $2.4 million.

Specific material items impacting statutory results

The Company has recognised the following specific material items in its 1H23 statutory result.

1. The $3.9 million non-cash impairment in the Multix brand reflects a reassessment of future revenue flows given changes in consumer preferences, primarily lower demand for resin-based products and customers trading down to private label products, reducing its carrying value by 19% from $20.2 million to $16.3 million.
2. $1.0 million non-cash impairment in other brands. The Maseur brand enjoyed strong growth in the early stages of the pandemic but following price increases at the start of the financial year, revenue in the half year was below expectations and has given rise to

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a reduced growth expectation, resulting in a reduction in its carrying value by 16% from $5.1 million to $4.3 million.

3. The $1.0 million favourable write-back of the FY22 provision for Dr. LeWinn's inventory is due to the achievement of above forecast sales of Dr. LeWinn's products over the last 12 months, particularly in the international market.
4. Restructuring costs of $0.2 million have been incurred, largely due to the integration of the Health CBU into the ANZ CBU.

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Net Debt and Cashflow

Net debt, excluding lease liabilities, remains low at $13.9 million (1H22: $8.8 million), and the Company's gearing ratio (net bank debt excluding lease liabilities / total funds employed) was 10% at 31 December 2022 (31 December 2021: 7%).

McPherson's reported an operating cash outflow, before interest and tax, of $6.0 million for the six months ended 31 December 22. The Company typically has seasonally lower cash flow over the first half of its fiscal year as it builds inventories ahead of the Chinese New Year factory shutdown period and has a seasonal increase in its trade receivables. Seasonal reductions in working capital over the six months to 30 June 2023 is forecast to result in strong 2H23 cash conversion.

Interim Dividend

Given the Company's strong balance sheet and franking credit balance, the Board has declared an interim dividend of 2.0cps fully franked (1H22: 3.0cps), with a record date of [21 March 2023] and payable to shareholders on [6 April 2023]. The interim dividend represents an underlying payout ratio of 89%.

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

ASIC Matter

As announced to the ASX on 9 December 2022, ASIC has commenced civil proceedings in the Federal Court of Australia against McPherson's Limited and its former managing director/chief executive officer in relation to events during the period 30 October 2020 to 1 December 2020. The company is defending these proceedings.

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, skincare, 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. 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

Appendix – 1H23 & 1H22 Results Summary

Underlying results	**1H23 ($m)**	**1H22 ($m)**	**Change ($m)**	**Change (%)**
Sales revenue	112.0	108.8	3.2	3%
ANZ underlying EBITDA	11.6	13.6	(2.0)	(15%)
International underlying LBITDA	(0.3)	(0.9)	0.6	67%
Unallocated underlying expenses	(2.4)	(2.7)	0.3	11%
Underlying EBITDA	8.9	10.0	(1.1)	(11%)
Underlying EBIT	5.8	7.2	(1.4)	(19%)
Underlying PBT	5.1	6.7	(1.6)	(24%)
Underlying PAT	3.2	4.4	(1.2)	(27%)
Underlying EPS (cents per share)	2.2	3.5	(1.3)	(37%)

Statutory results	**1H23 ($m)**	**1H22 ($m)**	**Change ($m)**	**Change (%)**
Sales revenue	112.0	108.8	3.2	3%
EBITDA *	9.7	0.5	9.2	N/M
PBT / (LBT) **	1.0	(3.0)	4.0	N/M
PAT / (LAT) ***	0.1	(2.1)	2.2	N/M
EPS / (LPS) (cents per share)	0.1	(1.7)	1.8	N/M

Net Bank Debt and Gearing	**1H23 ($m)**	**1H22 ($m)**	**Change ($m)**	**Change (%)**
Net Bank Debt	13.9	8.8	5.1	58%
Gearing	10.5%	6.8%	3.7%	54%

N/M –% change not considered meaningful.

* 1H23 Statutory EBITDA includes the following pre-tax, specific material items: (i) Dr. LeWinn's inventory provision write-back $1.0 million; (ii) Restructuring costs ($0.2) million.

1H22 Statutory EBITDA includes the following pre-tax, specific material items: (i) Dr. LeWinn's inventory provision ($9.4) million; (ii) Restructuring costs ($0.4) million; (iii) Regulatory review costs ($0.2) million; and (iv) Reversal of estimated joint venture exit costs $0.4 million.

** 1H23 Statutory PBT includes the following pre-tax, specific material items: (i) Multix brand impairment ($3.9) million; (ii) Other brand impairments ($1.0) million; (iii) Dr. LeWinn's inventory provision write-back $1.0 million; (iv) Restructuring costs ($0.2) million.

1H22 Statutory LBT includes the following pre-tax, specific material items: (i) Dr. LeWinn's inventory provision ($9.4) million; (ii) Restructuring costs ($0.4) million; (iii) Regulatory review costs ($0.2) million; and (iv) Reversal of estimated joint venture exit costs $0.4 million.

*** 1H23 Statutory PAT includes the following after-tax, specific material items: (i) Multix brand impairment ($2.7) million; (ii) Other brand impairments ($1.0) million; (iii) Dr. LeWinn's inventory provision write-back $0.7 million; (iv) Restructuring costs ($0.1) million.

1H22 Statutory LAT includes the following after-tax, specific material items: (i) Dr. LeWinn's inventory provision ($6.6) million; (ii) Restructuring costs ($0.2) million; (iii) Regulatory review costs ($0.2) million; and (iv) Reversal of estimated joint venture exit costs $0.4 million.

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