



McPHERSON'S

McPherson's Limited

Results for the Year Ended 30 June 2014

Paul Maguire – Managing Director
Paul Witheridge – Chief Financial Officer

19 August 2014



TRANSFORMATION

MCP FY2014 Financial Overview



- ▶ Sales Revenue of \$353.4m, 18.1% above prior year
 - Comparable sales approx' in line with prior year, i.e. excluding acquisitions

- ▶ Underlying FY2014 EBIT, PAT & EPS in line with guidance
 - Underlying EBIT of \$27.3m, 8.2% above prior year*
 - Underlying PAT of \$14.7m, 12.8% above prior year*

- ▶ Second Half underlying EBIT 21.3% above prior year*
 - Full Second Half effect of Dr LeWinn's and Think Appliances acquisitions

MCP FY2014 Financial Overview



- ▶ Underlying EPS of 15.9 cents, 5.9% below prior year due to the issuance of new equity to fund acquisitions
- ▶ Recent acquisitions all generating annualised ROFE > 20%
- ▶ 'Cash flow from operations before interest and tax payments' of \$34.0m, 23.2% above prior year and 112% of EBITDA
- ▶ EBIT Interest Cover¹ of 4.7 times and Leverage Ratio² of 2.3 for the 12 months to 30 June 2014
- ▶ As previously announced First Half, and thus Full Year, results impacted by \$80.0m pre-tax non-cash impairment of intangible assets

1. Normalised LTM EBIT / Net borrowing cost

2. Net Debt / Normalised LTM EBITDA

Note that normalisations include the full year effect of acquisitions and divestments and non-recurring items

MCP FY2014 Financial Overview



- ▶ Final dividend of 5 cents per share fully franked; total dividend of 11 cents
 - 69% payout ratio of underlying EPS
 - Payment date of 11 November 2014
 - Dividend Reinvestment Plan (DRP) retained

- ▶ Consistent approach to FX hedging
 - Proportionally lower purchases denominated in USD in FY2015 due to Health and Beauty expansion



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STRATEGY UPDATE

Paul Maguire
Managing Director

Divisional revenue summary (Aus & NZ)



		% OF TOTAL REVENUE FY2014	REVENUE GROWTH FY14 vs FY13	REASONS	OUTLOOK
HEALTH & BEAUTY	   	31%	13%*	New products & acquisitions	Growth in revenue and profit
HOME APPLIANCES	  	17%	523%**	Full year effect of initial acquisition plus two recent acquisitions	Growth in revenue and profit
HOUSEWARES	  	22%	(8%)	'Crown Glassware' divestment and product range rationalisation	Lower sales but improved profitability
HOUSEHOLD CONSUMABLES		25%	0%	Market leadership maintained	Continued market leadership and consistent performance
OTHER (e.g. Impulse Merchandising)		5%	(18%)	Distribution changes	Growth through new ranging

* Health & Beauty growth rate excluding acquisitions = 2.5%, **Home Appliance growth rate excluding acquisitions = 16.0%



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Company transformation



McPherson's stated strategy is

*"to substantially **transform** through acquisition/divestment, the establishment of new agency relationships and channel expansion; **diversifying** away from margin constrained channels and increasing participation in channels with greater profit potential"*

Over the past two years we have...

- ... identified, acquired and successfully integrated EPS accretive businesses; delivering the anticipated synergy benefits and providing growth within more profitable channels
- ... divested the Crown Glassware business, thus exiting a less profitable channel
- ... attracted profitable new agency brands; and
- ... developed and launched comprehensive new innovative product ranges within existing profitable channels and expanded within newer, more profitable channels

What has been achieved so far...



Operational Excellence Initiatives

- ▶ Systems and processes improved; IT System upgraded and Continuous Improvement initiatives introduced
- ▶ Capacity for 2000+ additional product lines created at the Sydney 'pick to light' distribution centre
- ▶ Sydney distribution centre efficiency level taken to new heights through investment in technology
- ▶ Underperforming product ranges rationalised; substantially reducing overheads and improving profitability
- ▶ Price increases successfully implemented across all channels in response to cost inflation

What has been achieved so far...



Growth Initiatives

- ▶ Innovative new product ranges brought to market across all divisions
- ▶ Eight EPS accretive acquisitions successfully integrated; delivering scale, synergies, diversification and solid returns, with full year financial benefits to come in FY2015 from the more recent acquisitions
- ▶ A Heads of Agreement signed with a proposed partner, a global manufacturer and distributor of Housewares products; providing the opportunity to benefit in FY2015 and beyond from our collective strengths and scale, as well as better service the needs of retailers
- ▶ New agency partnerships recently formed with two owners of prestigious Beauty brands; further leveraging McPherson's existing infrastructure and boosting future profits for all parties

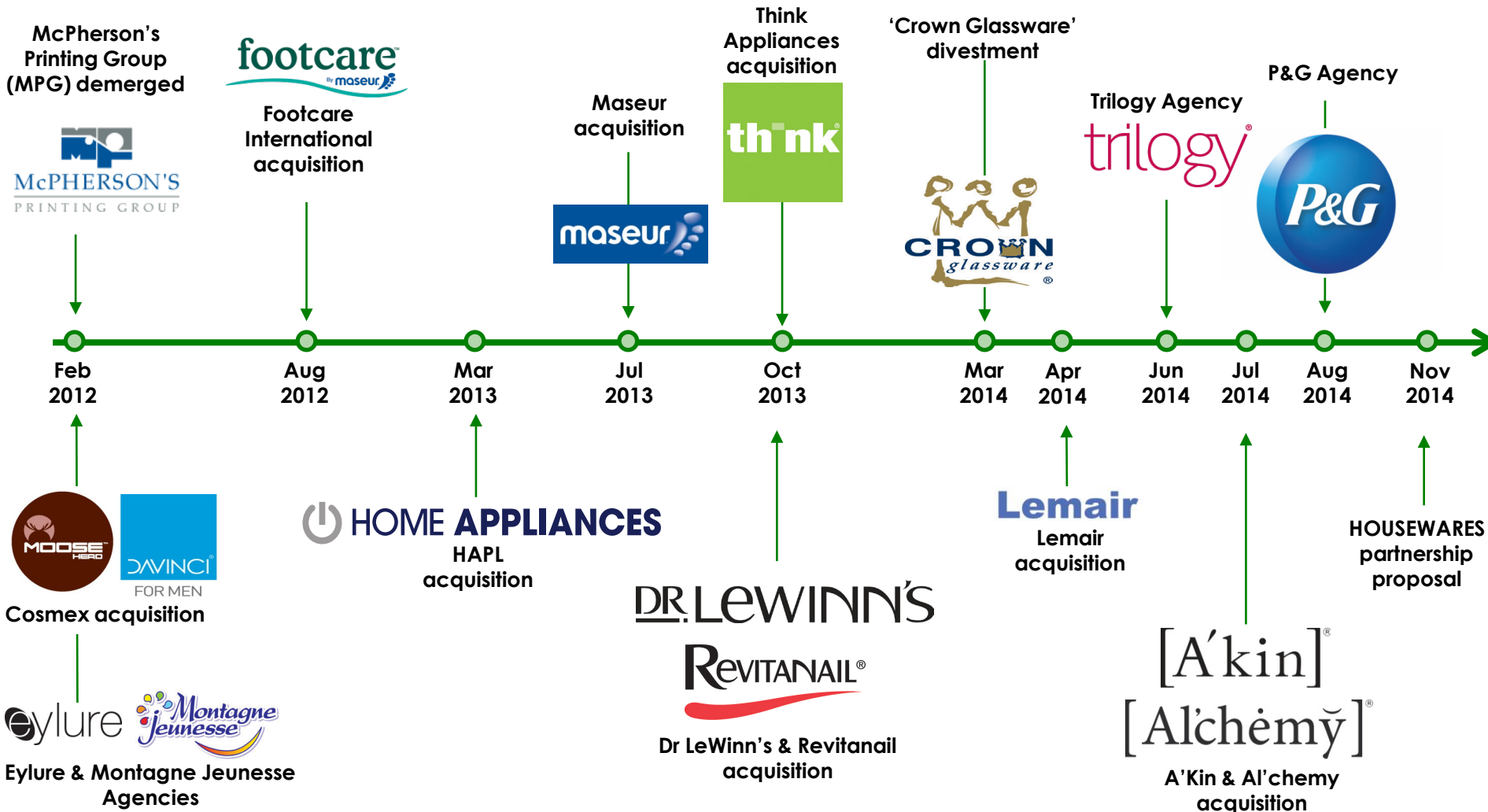


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Company transformation timeline



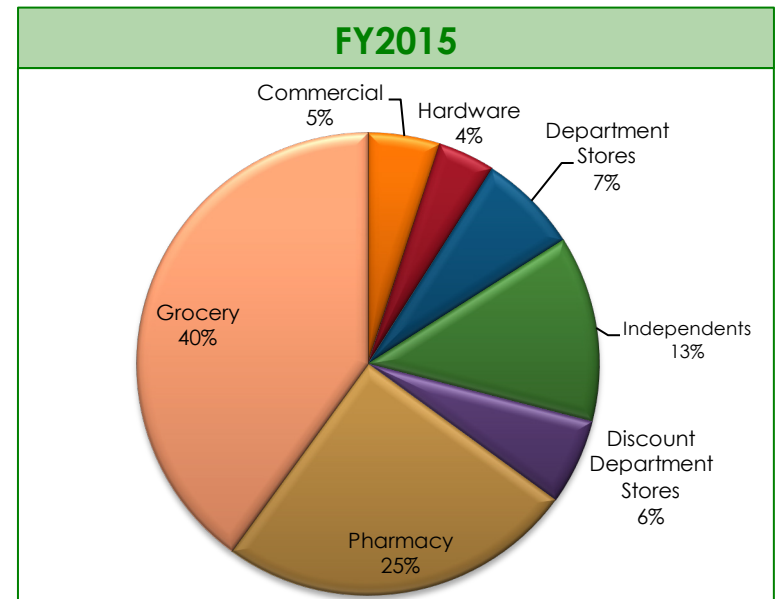
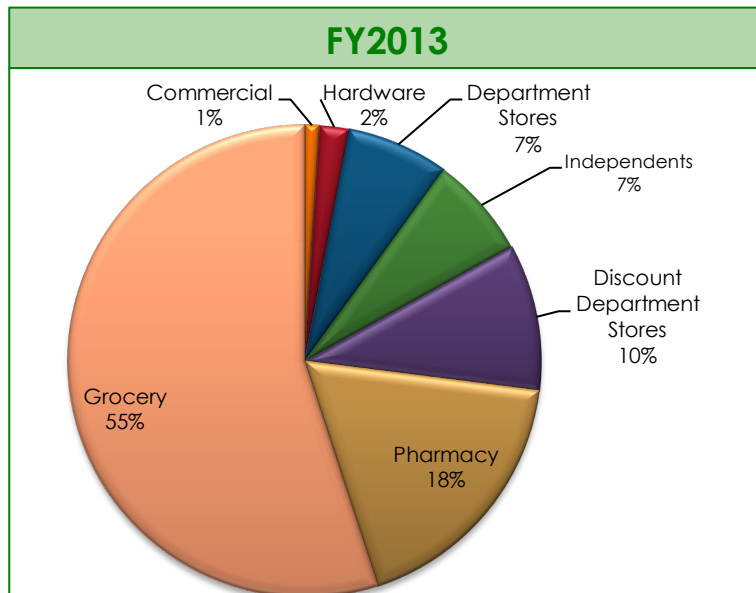
Diversification achieved via acquisitions & new agencies since McPherson's Printing demerger



Company transformation benefits



- ▶ Transforming the company through diversification assists in better managing risk:
 - Lessened exposure to foreign exchange
 - * USD purchases will reduce to 65% of total purchases in FY2015, down from 83% in FY2013
 - Improved channel mix
 - * In FY2015 revenue will be better distributed across the various channels



Health & Beauty acquisitions

▶ Dr LeWinn's & Revitanail

- Annual revenue approx' \$20m
- Iconic skincare brand & beauty treatment brand
- Leveraging McPherson's infrastructure and strength in the pharmacy channel



▶ A'kin & Al'chemy

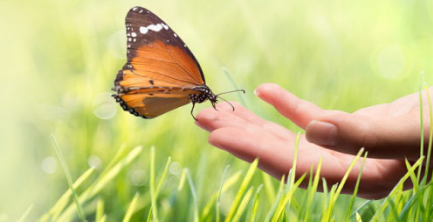
- Annual revenue approx' \$8m
- A range of natural skincare products (A'kin) and a range of natural shampoos, conditioners and treatments (Al'chemy)
- Leveraging McPherson's infrastructure and strength in the pharmacy channel



[A'kin][®]



[Al'chemÿ][®]



► Think Appliances

- Annual revenue approx' \$30m
- Baumatic, Venini and D'Amani brands
- Further diversifying McPherson's by increasing business in the electrical retail, hardware and commercial (home building) channels



► Lemair

- Annual revenue approx' \$2m
- A niche heritage brand in the refrigeration category, complementing our comprehensive portfolio of appliance brands



Housewares proposed partnership



- ▶ An opportunity to partner with an accomplished global player in the Housewares industry; the FACKELMANN Group (FMG) from Germany
- ▶ Proposed new venture, FMG 51% : MCP 49%, intended to be established 1 Nov 2014

FACKELMANN®



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- ▶ The FACKELMANN Group is a global manufacturer and distributor of kitchen, baking, home and leisure products, operating 35 manufacturing and distribution centres worldwide
- ▶ On settling final partnership details, both businesses are expected to benefit from their collective capabilities:
 - Optimising procurement and supply chain
 - Knowledge sharing
 - Harmonising existing product assortments
 - Integrating infrastructure
 - Leveraging scale



▶ Trilogy

- Trilogy is a highly regarded and well recognised natural skincare brand in the Pharmacy and Beauty channels, with a strong heritage in the marketplace
- McPherson's provides the Trilogy business with a single, integrated approach to distribution, sales and marketing in Australia



New Agency Partners for FY2015



Extract from the Proctor & Gamble Fine Fragrances Trade Announcement:

'This is to inform you that **McPherson's Consumer Products Pty Ltd** has been appointed as the Distributor in the Australian domestic market for the P&G Fine Fragrance Brands – Gucci, Dolce & Gabbana and Hugo Boss.'

– Jose Luis Palacios, Prestige Leader – Asia Pacific





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Health and Beauty



swisspers



DR. LEWINN'S®



Revitanail®



[A'kin]
[Al'chemÿ]



Current Status

- ▶ Health & Beauty Full Year sales excluding acquisitions 2.5% ahead of prior year
- ▶ Successful new product launches under trusted brands
- ▶ Acquisitions and new agencies boosting McPherson's presence in Pharmacy and Department Stores and reaffirming McPherson's beauty industry credentials:
 - Dr LeWinn's and Revitanail Nov 2013
 - Trilogy, A'kin and Al'chemy July 2015
 - Gucci, Dolce & Gabbana and Hugo Boss Aug 2015

Outlook

- ▶ Synergies from recent brand acquisitions
- ▶ Continued growth through:
 - new product development
 - the effect of recent acquisitions and new agencies
 - the potential for further acquisitions and new agencies, utilising available DC capacity for 2000+ product lines



Current Status

- ▶ Home Appliances acquired Apr 2013, Think Appliances Nov 2013 & Lemair May 2014
- ▶ Diversification for McPherson's into electrical, hardware & commercial channels
- ▶ Successful new product launches under numerous trusted brands
- ▶ Price increases implemented in FY2014
- ▶ Strong supplier network

Outlook

- ▶ Synergies from FY2014 acquisitions
- ▶ Benefits derived from operational initiatives
- ▶ Benefits to flow from building approvals being at a five year high
- ▶ Continued growth through:
 - new product development
 - expansion within existing & new categories and channels
 - the potential for further acquisitions



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Housewares

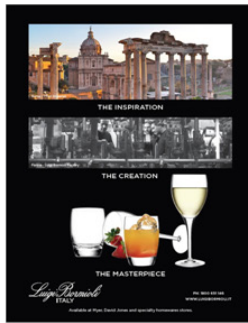


wiltshire®



Stanley Rogers

Füri®



Current Status

- ▶ Rationalisation and clearance of 30% of the product range leading to overhead reductions and a focus on major brands
- ▶ Profit adversely affected by growth in private label, product cost increases ex Asia and additional support required by customers
- ▶ Price increases implemented in FY2014
- ▶ Diversification into electrical retail channel
- ▶ Exit from lower margin foodservice channel

Outlook

- ▶ Continued product range optimisation to boost profitability
- ▶ Operational excellence initiatives to further reduce overheads
- ▶ Introduction of profitable new products
- ▶ Proposed housewares partnership expected to leverage scale, manufacturing & sourcing capability, and boost competitiveness

Household Consumables



Current Status

- ▶ YTD Sales in line with prior year
- ▶ Profit impacted by:
 - protracted negotiations prior to the acceptance of price increases
 - product cost increases ex-Asia
 - AUD decline
 - increased 'customer support' required
 - customers' reduced inventory holdings

Outlook

- ▶ Market leadership maintained
- ▶ Sales and profit strengthened by innovative new products
- ▶ Sourcing initiatives to underpin profitability
- ▶ Favourable impact of price increases





- ▶ Trading conditions expected to remain consistent with the past year
- ▶ Continued strong performances from Health & Beauty and Home Appliances
 - boosted by the full year effect of recent acquisitions and new agency relationships
- ▶ Profit optimisation initiatives improving Housewares and Household Consumables
 - Housewares expected to be favourably impacted by the proposed partnership
- ▶ Strong pipeline of innovative new products to support the portfolio of market leading brands
- ▶ Key operational initiatives substantially improving productivity and profitability
- ▶ Further business diversification via synergistic acquisitions and new agency partnerships



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RESULTS FOR THE YEAR ENDED 30 JUNE 2014

Paul Maguire – Managing Director

Paul Witheridge – Chief Financial Officer

Mission

To be a world class consumer products company

through

1st choice **products for consumers**

and by being a

1st choice **partner for customers and suppliers**

1st choice **employer for employees**

1st choice **investment for shareholders**



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APPENDIX

MCPHERSON'S LIMITED – FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014

Paul Witheridge
Chief Financial Officer

Group Financial Summary for FY2014

Underlying (i.e. excluding non-recurring items)



	June 2013 [*] (\$A million)	June 2014 [*] (\$A million)
Sales	299.2	353.4
EBITDA	27.9	30.2
Depreciation & amortisation	(2.7)	(2.9)
EBIT	25.2	27.3
Interest	(6.5)	(6.6)
PBT	18.7	20.7
Tax	(5.6)	(6.0)
PAT	13.1	14.7
Operating cash flow (before interest and tax)	27.7	34.0
EPS excluding non-recurring items (cents)	16.9	15.9
Total dividend (cents – fully franked)	17.0	11.0

18.1% Sales increase

8.2% EBIT increase

Interest cover 4.1 times

10.9% PBT increase

12.8% PAT increase

Group Financial Summary for FY2014

Statutory (i.e. including non-recurring items)



	June 2013 [*] (\$A million)	June 2014 [*] (\$A million)
PBT excluding non-recurring items	18.7	20.7
Non-recurring items:		
- Impairment of intangibles	(50.0)	(80.0)
- Restructuring costs	(1.6)	(1.5)
- Other non-recurring items	3.2	(1.1)
Statutory PBT	(29.7)	(61.9)
Income tax expense	(3.6)	(4.7)
Statutory PAT	(33.3)	(66.6)
Statutory EPS (cents per share)	(43.2)	(71.9)

* Figures reflect the early adoption of AASB 9 *Financial Instruments*

Non-Recurring Items



The following non-recurring items are included in statutory loss before tax:

	June 2013 (\$A million)	June 2014 (\$A million)
Impairment of intangibles	(50.0)	(80.0)
Contingent consideration adjustment	3.5	-
Restructuring costs – redundancies and inventory clearance	(1.6)	(1.5)
Acquisition and transition costs	(0.2)	(1.1)
Total non-recurring items before tax	(48.3)	(82.6)
Total non-recurring items after tax	(46.4)	(81.3)

Overview of Group Balance Sheet



	June 2013 (\$A million)	June 2014 (\$A million)
Inventories	67.6	45.5
Receivables	56.8	63.3
Assets held for sale (inventories)	-	26.1
Payables	(38.9)	(50.6)
Net working capital	85.5	84.3
Property, plant & equipment	7.7	6.0
Intangibles	168.1	88.3
Assets held for sale	-	19.3
Provisions & other net liabilities	(13.8)	(26.2)
Total funds employed	247.5	171.7
Net financial debt	(69.6)	(74.7)
Net tax balances	(8.8)	(2.5)
Shareholders' funds	169.1	94.5
Gearing [Net debt / (Net debt + Shareholders' funds)]	29.3%	44.1%
ROFE (underlying EBIT / Total funds employed*)	8.5%	9.0%
ROSF (underlying PAT / Shareholders' funds*)	6.0%	6.6%

* FY2014 Total funds employed and shareholders' funds exclude the \$50.0m non-cash impairment of intangibles expensed at 30 June 2013 and the \$80.0m non-cash impairment of intangibles expensed at 31 December 2013.

FY2013 Total funds employed and shareholders funds exclude the \$50.0m non-cash impairment of intangibles expensed at 30 June 2013. 27

Group Operating Cash Flows



	June 2013 (\$A million)	June 2014 (\$A million)
cash flows from operations		
Receipts from customers (inclusive of GST)	334.5	379.1
Payments to suppliers and employees (inclusive of GST)	(306.9)	(345.1)
Net cash inflows from operations before interest and tax	27.6	34.0
Net interest and borrowing costs paid	(7.0)	(6.4)
Income tax paid	(5.8)	(4.4)
Net cash inflows from operations	14.8	23.2

Group Investing and Financing Cash Flows



	June 2013 (\$A million)	June 2014 (\$A million)
cash flows from investing activities		
Payments for purchase of property, plant and equipment	(2.3)	(1.3)
Payments for acquisition of business assets	(21.2)	(23.7)
Payments for purchase of intangibles	(0.8)	(1.1)
Proceeds from sale of business assets	-	2.2
Net cash outflows from investing activities	(24.3)	(23.9)
cash flows from financing activities		
Net proceeds from capital raising	32.9	4.7
Net proceeds from (repayment of) borrowings	(11.3)	7.1
Dividends paid (net of DRP participation)	(10.7)	(8.7)
Net cash inflows from financing activities	10.9	3.1
Net increase in cash held	1.4	2.4

FX Hedging (Australia)



- ▶ Comprehensive FX hedging program in place using Options, Forward Exchange Contracts (FECs) and Collars:

Options	Protect downside with premium cost but allow upside benefit
FEC's	Fixed rate with lost forward points
Collar	Improved downside protection in exchange for limiting upside

Current Policy

- * Hedge 8 months forward on a rolling basis for 100% of USD requirements
- * Options to comprise at least 50% of 8 month requirement. Options, FEC's and tunnel collars to be used for remaining 50%
- * FEC's placed covering:
 - Next 30 days where strike is 8 cents above the protected rate; and
 - Next 31 to 90 days where strike is 10 cents above the protected rate



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Non-IFRS measures

The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.

Disclaimer

Statements contained in this presentation, particularly those regarding possible or assumed future performance, estimated company earnings, potential growth of the company, industry growth or other trend projections are or may be forward looking statements. Such statements relate to future events and expectations and therefore involve risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward looking statements.

TRANSFORMATION