

ASX / Media release
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(ASX: MCP)

McPherson's Announces 1H FY20 Results
9% increase in Profit Before Tax (PBT) to \$8.5 million
FY20 PBT guidance maintained
Positive performance from domestic and export markets

Other Highlights

- **Sales revenue on previous corresponding period (pcp):**
 - **13% growth from owned brands**
 - **14% growth from core six brands**
 - **124% increase in sales of Dr. LeWinn's products with exceptional growth in export sales and solid domestic sales growth**
- **Strategic JV with ABM to secure distribution into fast-growing China market**
- **Interim dividend of 4 cents per share (cps), fully franked, representing a 74% payout ratio**
- **FY20 PBT guidance maintained at approximately 10% above FY19**

McPherson's Limited ("McPherson's" or "the Group") today announced its results for the six months ending 31 December 2019. Underlying and statutory profit before tax for the half year was \$8.5 million (1H19: \$7.8 million), representing a 9% increase. Excluding the impact of the new leasing accounting standard, profit before tax was \$8.0 million, an increase of 3% on the pcp of \$7.8 million in 1H19.

Total sales revenue of \$106.0 million was in line with 1H19 (\$106.5 million). Importantly, sales increased by 6% excluding the impact of recently terminated distribution agreements with Trilogy and Karen Murrell. McPherson's recorded significant growth from its portfolio of owned brands, up 13% to \$87.9 million on pcp (1H19: \$78.2 million). Key owned brand, Dr. LeWinn's, continues to deliver exceptional growth in export markets with sales up 272% to \$13.9 million for 1H20, as well as robust growth in the domestic market with sales up 49% to \$11.2 million (1H19 \$7.5 million).

The Directors have declared an interim ordinary dividend of 4.0 cps, fully franked (2019 interim ordinary dividend: 4.0 cps full franked) to be paid on 19 March 2020 to shareholders on the register at 2 March 2020. The interim ordinary dividend represents a 74% payout ratio of 1H20 earnings per share, in line with the Group's dividend policy to pay a minimum of 60% of underlying profit after tax, subject to other cash requirements.

The dividend reinvestment plan (DRP) remains in place with the Board retaining a 2.5% discount to the pricing of the DRP to encourage further participation in the plan.

Statutory Results	1H20 (\$ million)	1H19 (\$ million)	Change (%)
Sales revenue	106.0	106.5	-
Earnings before interest and tax	9.0	8.2	9%
Profit before tax	8.5	7.8	9%
Profit after tax	5.7	5.5	3%
Earnings per share (eps)	5.4	5.3	2%
Interim ordinary dividend (cps)	4.0	4.0	-
Net debt	19.6	19.5	1%

McPherson's Managing Director, Mr. Laurence McAllister, said: "Our unwavering focus on our three-year strategy continues to deliver positive financial results. We are pleased with our performance for the year so far, particularly in an environment where there has been some pressure in the domestic and select international retail markets.

"Our owned brands continue to perform well with a 13% uplift in sales compared with 1H19, maintaining significant outperformance of Australia's pharmacy channel. Our key core brand Dr. LeWinn's has again delivered very strong sales growth, up 124% against 1H19 with domestic growth, bolstered by exceptional growth in the export market, in particular, China. This is a testament to our investment in product innovation, our evolving strategic partnership with Access Brand Management (ABM) and our ability to maintain sustainable supply through the Aware Group."

Livia Wang, CEO, Australia and New Zealand of Access Corporate Group commented:

"We have hosted training and brand day events for thousands of people. The 11:11 singles day promotional period saw continued expansion in the number of hero products from 3 to 5, with some amazing results recorded on new launches such as Dr. LeWinn's R4 Collagen Surge (with 25,000 units sold in 3 minutes) and Dr. LeWinn's Line Smoothing Complex new launches with 28,000 units sold in 10 minutes). The increased penetration of Chinese consumers in different cities is very pleasing as the brand continues to build engagement with Chinese beauty seekers. We believe we are only just at the start of the journey and have started to achieve industry recognition. Illustrating this, Dr. LeWinn's Line Smoothing Complex, Triple Action Day Defence 30g was voted the No. 1 Best Serum in 2019 by Bazaar Magazine."

Category performance

During the first half of the 2020 financial year, McPherson's generated strong growth in **skincare, haircare and body care brands**, with revenue increasing 90% over the half to \$28.7 million.

Dr. LeWinn's primarily drove this growth with significant increases in export and domestic channel sales with a strong portfolio of products attracting consumer attention. During the period, shopping festivals including 11:11 and Black Friday contributed to sales with continued demand for Australian-made products in China, in particular. McPherson's investment in innovation resulted in the creation of four new Dr. LeWinn's products with consumer demand driven by clinically proven sub-brands. Domestic sales of 100% vegan brand A'kin products rose 2.8% during the half, which was offset by lower sales in export markets.

Sales in the **essential beauty** category were flat at \$28.8 million, with 2% sales growth in beauty accessory market leader Manicare, offset by declines of 2% and 4% for Lady Jayne and Swisspers respectively, which continue to face competitive pressure from private label products.

The **household essentials and other brands** category recorded a sales decline of 11% to \$30.4 million. Sales of the dominant product in this category, Multix, were down 12% due to grocery range rationalisation, however this resulted in increased margins and overall EBIT for the brand. Multix continues to be a market leader in the 'sustainables' category, with 32% overall market share in Bags, Wraps and Foils and 80% share of sustainable products.

Our **Agency brands** are becoming less significant as McPherson's focuses on its owned brands. The termination of the Trilogy Natural Products distribution agreement, effective 30 June 2019, and Karen Murrell agencies led to a 45% decline in revenue in this category to \$7.0 million in 1H20. Key agency relationships now comprise Eylure and Bondi Perfume, which together delivered a 16% increase in sales in 1H20.

Cash flow and balance sheet

The 1H20 cash conversion rate was seasonally low at 47% given the requirement to build skincare inventory to support future growth in export sales, general seasonal stock increases ahead of Chinese New Year shutdowns and high December sales. The cash conversion rate was significantly higher than 1H19 (22%) and is expected to improve significantly in 2H20.

Net debt excluding lease liabilities has remained stable at \$19.6 million over the last 12 months, despite key strategic investments in the Aware Group, joint ventures and display stands. The company's gearing ratio remained steady at 18% (excluding lease liabilities) as at 31 December 2019, a marked improvement from 2015 gearing of 46%. Net debt is expected to decrease by the end of FY20.

Strategy Update

Exploring new product growth platforms via acquisitions, joint ventures and partnerships is a key pillar of McPherson's group strategy. In the last 18 months, McPherson's established joint ventures with three Australian / New Zealand companies in line with its focus on the \$17 billion Health, Wellness and Beauty market. While they are not expected to add incremental profit in the short to medium term, these joint ventures with Kotia Deer Milk (skincare and cosmetics formulated with pure New Zealand deer milk), Sugarbaby (millennial beauty) and Soulful (health and wellness products) provide McPherson's with low risk entry into new categories and allow the brands to leverage McPherson's scale and capability.

Kotia is one of the fastest growing brands in Priceline stores with investment in the brand continuing and a China-facing export opportunity. Soulful brands will be launched later this year and mark McPherson's entry into the growing gut health space while brand planning is ongoing with Sugarbaby which will be geared towards new growth channels.

McPherson's expanded its successful export business model in 1H20 with the establishment of a joint venture with trusted Greater China distributor, Access Brand Management (ABM), for Dr. LeWinn's products. The joint venture will expand sales of McPherson's most profitable brand by granting exclusive distribution rights to ABM for Dr. LeWinn's products in China. The JV requires ABM to achieve a target of \$35 million in annual purchases of Dr. LeWinn's products from McPherson's in any year prior to 30 June 2022, or aggregate purchases of Dr. LeWinn's products from McPherson's of \$82.5 million over the three year period ended 30

June 2022. During 1H20, Dr. LeWinn's achieved export sales of \$13.9 million, demonstrating solid momentum for the year.

Investment in innovation continues to expand McPherson's product pipeline, resulting in 100 new products introduced across our owned brands in FY2019. With an 11 strong team, McPherson's has the capability and capacity to launch a further 200 products in FY20 with product focuses on the key growth areas across health, wellness and beauty including eco-friendly, dermo skincare, baby, beauty supplementers, gut and men's health.

Growth through ventures and acquisitions remains a strategic priority and McPherson's continues to explore new opportunities in health, wellness and beauty. With a strong balance sheet and rigorous criteria, McPherson's has been actively approaching targets and is well positioned to leverage opportunities in line with its strategy.

Impact of Coronavirus

Many of the Group's products, particularly in the essential beauty and household essentials categories, are sourced from suppliers based in China, which is being particularly impacted by the recent coronavirus outbreak.

As part of our normal supply planning processes, the Group increased its inventory levels in preparation for the Chinese New Year Holiday and related manufacturing facility closures, and as a consequence we currently have elevated stock levels. All of our 150 top selling products have in excess of 8 weeks stock holding, either on hand or in transit.

While our current stock levels are very healthy, our operations team is proactively monitoring and managing the supply of all products from China. At this stage, we do not anticipate material supply disruption, however the situation will become clearer over the next few weeks as suppliers re-open following a Chinese government-mandated factory shutdown.

ABM has not experienced any noticeable disruption to inbound orders from its Chinese customer base, however its internal supply chain and courier services have been impacted by delays in office re-openings and low staff levels. At this stage ABM does not expect this disruption will materially impact its 2H20 orders of Dr. LeWinn's, however the situation is evolving and is being closely monitored.

Management is closely monitoring the status of supplier and customer impacts and McPherson's Board will provide further updates to the ASX as necessary.

Outlook

Commenting on the outlook, McAllister said "We have achieved solid results this half year period due to the investments made over the last 18 months to drive growth in our business. Our strong brands and mix of channels give validity to growth and share of market. In particular, we are extremely impressed with the performance of our Dr. LeWinn's brand, which saw high demand from domestic and export markets. This underlines the success of our investment in product innovation and the strength of our partnership with ABM, which has supported a product sales leap in this brand from \$4.9 million in 1H17 to \$25.1 million in 1H20.

"With strong momentum and further growth in Dr. LeWinn's as Chinese New Year and Mother's Day events drive sales, the business is well positioned to continue growing in the 2020 financial year. The broader retail environment in all operating geographies will be impacted by the Coronavirus, particularly given the significance of Chinese tourism and



education to the South East Asian region. While we are on track to meet our previously stated guidance of FY20 growth in profit before tax of approximately 10% on FY19 with solid 1H20 results and a good start to 2H20, the external environment presents greater uncertainty than it did two months ago and we are actively monitoring the coronavirus situation as it evolves.”

Authorisation:

This ASX announcement is approved and authorised for release by the McPherson’s Limited Board.

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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 Dr. LeWinn’s, A’kin, Manicare, Lady Jayne, 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>