



MCPHERSON'S LIMITED  
2018 HALF YEAR RESULT PRESENTATION

21 FEBRUARY 2018

Presented by:

Laurie McAllister, Managing Director

Paul Witheridge, Chief Financial Officer



# 1HFY18 FINANCIAL HIGHLIGHTS

## Headline earnings driven by execution of strategic initiatives and stronger owned brands performance

- Underlying profit before tax maintained at \$11.0m
- Underlying profit before tax from continuing operations up 2.4% to \$9.5m
- Underlying cashflow conversion of 94%
- 26% reduction in net debt over last 12 months to \$30.4m
- Divestment of Home Appliances to generate proceeds of net \$28m, ie 7 times EBIT
- Net debt projected to be \$5m by 30 June 18



# 1HFY18 BUSINESS HIGHLIGHTS

- **Divestment of the home appliances business executed, on track for completion on 28 February**
- **Transformation of MCP owned brands delivers strong performance: +4.1% vs 1HFY17 on core 5**
  - 3 out of 5 MCP brands are #1 in market share and continue to take further share in the first half vs last year
  - A'kin now the #7 natural skincare and haircare brand in Australian Pharmacy, and is one of the fastest growing in the category
- **Tangible benefits realised from strategic customer partnerships**
  - #1 Australian beauty supplier within pharmacy and top 10 supplier in total, including international players
  - Strategic discussions complete on new / realigned trading terms with top 10 Pharmacy customers for mutual growth.
- **Export channels, business model and business relationships gaining momentum**
  - Selective geographic expansion in South-East Asia and North-Asian corridors
  - Measured strategy to expand channels in China, adding selective distributors based on key strengths across formats



# FINANCIALS



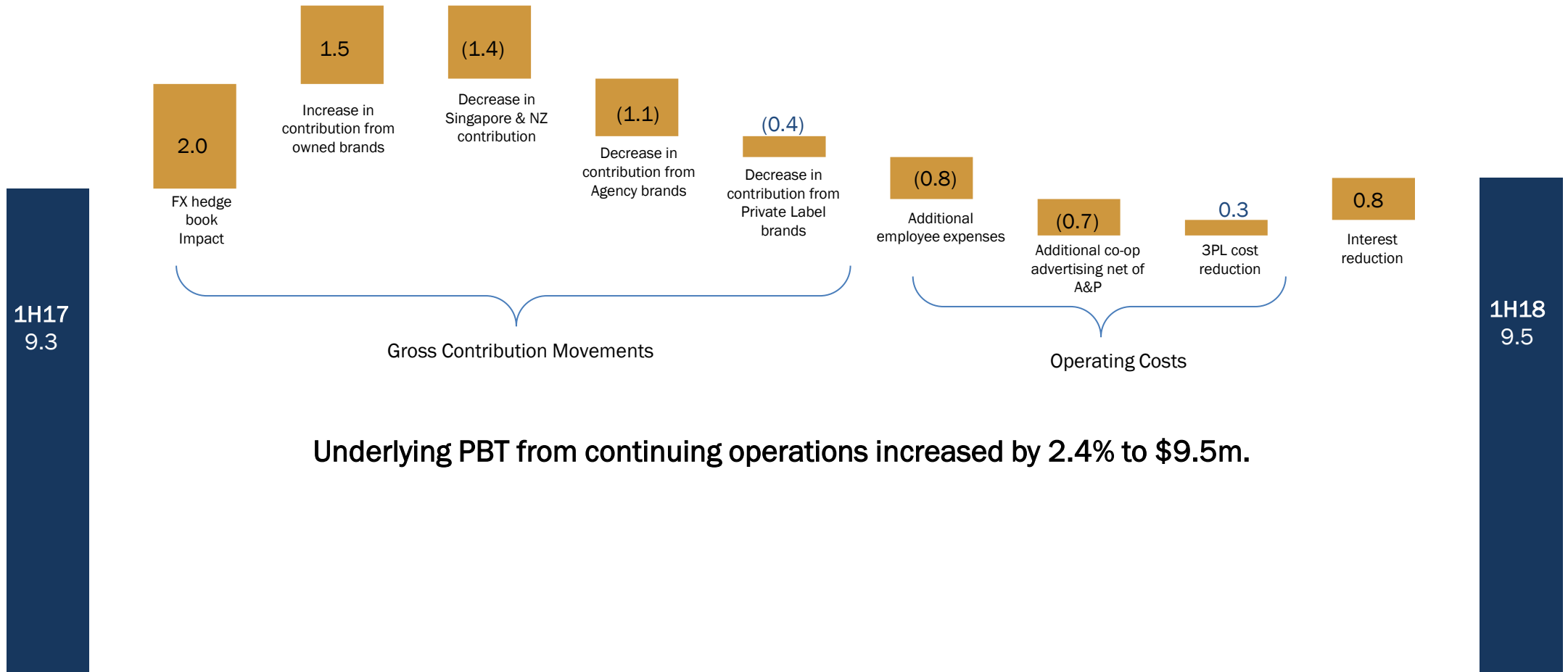
# 1HFY18 SALES REVENUE BREAKDOWN

Sales revenue from continuing operations reduced by 7.4% to \$106.1m.

Owned brands:	1HFY18 \$Am	1HFY17 \$Am	% change	Comments
Skin, Hair and Body	9.5	7.7	24%	<ul style="list-style-type: none"> <li>Strong export and domestic sales of both Dr. LeWinn's and A'kin.</li> </ul>
Essential Beauty	30.1	30.5	(1%)	<ul style="list-style-type: none"> <li>Growth in Manicare</li> <li>Steady Swisspers sales growth</li> <li>Lady Jayne adversely impacted by packaging change (soft change over)</li> </ul>
Household Essentials & others	29.6	33.8	(12%)	<ul style="list-style-type: none"> <li>Lost SKU ranging of Multix &amp; Footcare in grocery</li> </ul>
<b>Total Owned brands</b>	<b>69.2</b>	<b>72.0</b>	<b>(4%)</b>	
Agency Brands	21.9	22.8	(4%)	<ul style="list-style-type: none"> <li>Exit of Dolce &amp; Gabanna.</li> </ul>
Private Label	11.9	14.9	(20%)	<ul style="list-style-type: none"> <li>Reduced supply to Aldi and other grocery majors.</li> </ul>
<b>Total HW &amp; B Sales Australia &amp; NZ</b>	<b>103.0</b>	<b>109.9</b>	<b>(6%)</b>	
Asia (Singapore office)	3.1	4.8	(35%)	
<b>Total sales from continuing operations</b>	<b>106.1</b>	<b>114.5</b>	<b>(7%)</b>	
Home Appliances	34.6	34.2	1%	
<b>Total statutory sales</b>	<b>140.6</b>	<b>148.7</b>	<b>(5%)</b>	



# UNDERLYING PBT- 1HFY17 to 1HFY18



**Underlying PBT from continuing operations increased by 2.4% to \$9.5m.**



# BALANCE SHEET & CASHFLOW METRICS

Underlying Cash Conversion*	94%		\$13.4m operating cash flow before interest and tax payments
Net Debt	\$30.4m	↓ 25.6%	Strong operating cashflow
Gearing	25.9%	↓ 4.5pp	Strong financial platform
ROFE ** (6 months)	10.8%	↑ 0.7pp	Solid return on funds employed
Normalised EBIT Interest Cover	7.4 times	↑ 2.0 times	EBIT*** / Interest†
Normalised leverage Ratio	1.1 times	↓ 0.1 times	Net Debt / EBITDA***
All movements measured with reference to 31 December 2016			

\* Operating cashflow / Underlying EBITDA excluding non-cash, non-recurring items.

\*\* Underlying EBIT / Total funds employed.

\*\*\* Underlying EBIT and EBITDA exclude significant, non-recurring items

† Interest normalised to exclude bond buyback costs



# HOME APPLIANCES DIVESTMENT

- Divestment of Home Appliances business to Glen Dimplex announced 14 December 17
- \$28m in net proceeds equates to ~ 7 times FY18 EBIT
- On track for completion on 28 February 18
- Outstanding \$25m in outstanding Corporate notes to be bought back on 31 March 18
- Net debt forecast to be ~\$5m at 30 June 18 (\$93m at 31 December 15)
- MCP now poised to divert capital to investments that will utilise capacity and operational strengths





# 1HFY18 KEY FINANCIALS – OTHER INFORMATION

- Interim dividend of 6 cents per share fully franked payable 22 March 18
- DRP retained
- Current FX hedging policy retained
- Reduced exposure to FX risk, AUD purchases now >40% of total purchases



# MARKET ENVIRONMENT



# TRADING ENVIRONMENT

## MARKET CONDITIONS

Pharmacy Sales slowed from +5% to +0.2%.  
(Facial Skincare +6%)

Grocery growth from +2% to +4%

Range rationalisation in both Grocery and Pharmacy.

20% reduction in range in Coles and Priceline

Rise of Private Label and retailer exclusive brands.

#1 & #2 brands expected to drive category innovation.

Amazon launch.

Continued growth of Daigou China demand.

## McPHERSON'S POSITION

#1 Australian Pharmacy beauty supplier accelerating within high growth categories

Incremental ranging in Metcash & WW in Swisspers & Manicare

Achieving incremental ranging/space and channel expansion with A'kin, Swisspers & Manicare

Well positioned with 5 #1 owned brands

2X investment in R&D

242 SKUs across 13 resellers on Amazon growing at +324% since launch in Australia.

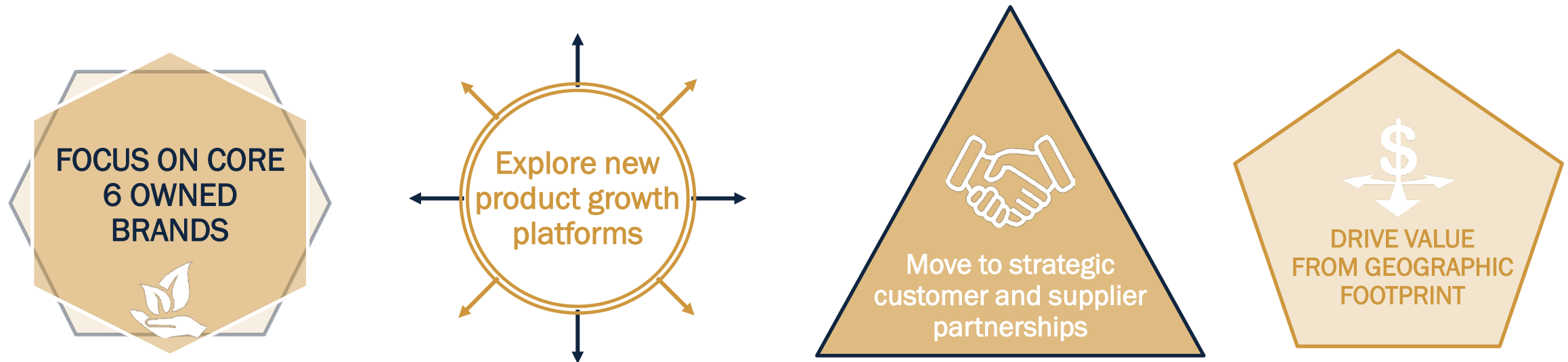
Daigou \$100 billion\* annually  
McPherson's actively engaged.

\*Source: Nielsen BreA'king Borders - Exploring the Daigou opportunity Oct 17 report



# STRATEGY UPDATE

# 3 YEAR STRATEGY - TO GROW IN HEALTH, WELLNESS AND BEAUTY



## STRATEGIC ENABLERS

End to end capability and capacity -  
supply chain, route to market and IT

Strong agency partners compliment portfolio,  
scale and capability

# Dr. LeWinn's, EXPERIENCING STRONG DOMESTIC AND EXPORT PERFORMANCE

**DR. LEWINN'S®**

**NEW**

luxurious skincare from  
**ETERNAL YOUTH**

With the power of **Juveleven™** which helps to **rejuvenate** and **revitalise** skin cell appearance by **10 years**.

**FOAMING MOUSSE CLEANSER**  
A soft velvety cleanser combining the anti-oxidant properties of **Elfe Flower** and the soothing benefit of **Green Tea**.

**SKIN POLISHING EXFOLIANT**  
An invigorating exfoliant containing **Activated Charcoal** to draw out impurities and refine pores for a glowing complexion.

**RICH NOURISHING CREAM**  
A rich and luxurious cream formulated with **Hydroviton® Plus** and **PatchiO™** for intense and lasting hydration.

**OVERNIGHT RECOVERY COMPLEX**  
A powerful and concentrated complex containing **Epitensive™**, a breakthrough in skin rejuvenation.

Anna Bamford  
Australian actor

Renew your **you**

Discover more at [drlewinns.com.au](http://drlewinns.com.au) [facebook.com/drlewinns](https://www.facebook.com/drlewinns) [@drlewinns](https://www.instagram.com/drlewinns)

- #1 Cosmeceutical facial skincare brand in Pharmacy
- >20% revenue growth versus prior year
- +20% increase in household penetration in Australia
- +87% revenue growth for Eternal Youth driven by new product launches
- +170% revenue growth for Line Smoothing Complex range due to Daigou demand



**DR. LEWINN'S®**

[A'kin]  
NATURAL AUSTRALIAN SKINCARE



# A'kin, ONE OF THE FASTEST GROWING BRAND IN THE NATURALS SPACE

EST. 2002

## [A'kin]<sup>®</sup>

NATURAL AUSTRALIAN SKINCARE & HAIRCARE

Not all natural brands are created equally.

- NO SILICONES
- NO ANIMAL DERIVATIVES
- NO PEGS
- NO SYNTHETIC FRAGRANCES
- NO PHTHALATES
- NO ETHOXYLATED CLEANSERS
- NO SULFATES
- NO PARABENS

**NEW** Look Haircare

**NEW** Micellar Water 500mL in store now

**NO PARABENS NO SULFATES**

Discover more at [akin.com.au](http://akin.com.au)

NO NASTIES RECYCLABLE PACKAGING AUSTRALIAN MADE & OWNED NOT TESTED ON ANIMALS 100% VEGAN

MCPHERSON'S

- +38% annual retail sales growth
- Achieved top 10 ranking in natural facial skincare & haircare, fastest growing in pharmacy,
- New hair care packaging aligned with skincare to create one global brand TM
- A'kin Avocado & Calendula Conditioner – Winner of the ‘Natural Beauty’ Awards Conditioner Category



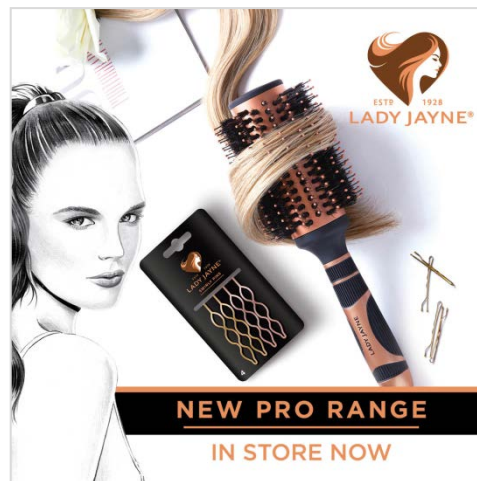
DR. LEWINN'S<sup>®</sup>



# REVAMPED PACKAGING AND INTERACTIVE DIGITAL ENGAGEMENT APPEALING TO YOUTH

Recruiting younger consumers to our brands:

- Over 7 million consumers reached via Manicare, Glam, Lady Jayne and Fashion Collaboration campaigns
- Our Glambassador, Pia Muehlenbeck driving brand awareness with 3.5m social media followers
- Swisspers gaining +1.3 share points within facial wipes segment through new packaging and products



DR. LEWINN'S®

[A'kin]  
NATURAL AUSTRALIAN SKINCARE





# MULTIX LEADING INNOVATION WITH A FIRST MOVER SUSTAINABILITY DRIVE

- Multix market leadership with first to market innovation “Greener” supported by strong in-store activation



DR. LEWINN'S®

[A'kin]  
NATURAL AUSTRALIAN SKINCARE



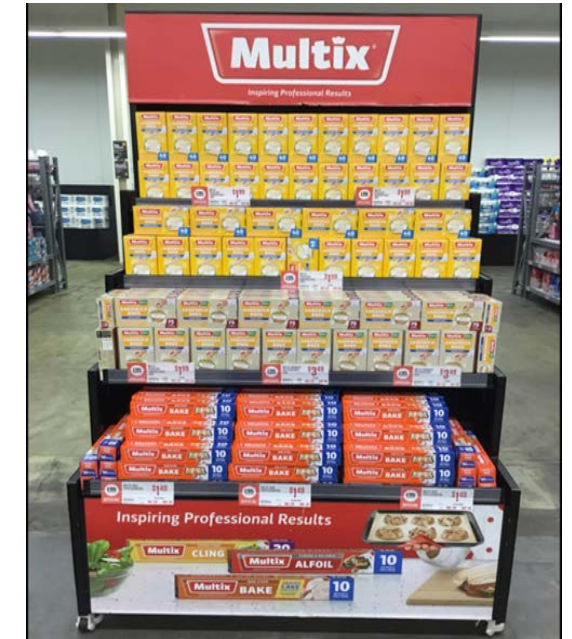
# MOVE TO STRATEGIC CUSTOMER/SUPPLIER PARTNERSHIPS

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- **Approach to strategic customer partnership delivering outcomes (channel expansion of Manicare into Grocery)**
  - Formalised Top to Top Meetings with Customers and Suppliers
  - Structure and engaged joint business planning to drive mutual growth
  
- **Tangible benefits realised from strategic customer partnerships**
  - #1 Australian beauty supplier within pharmacy
  - Strategic discussions and new trading terms with top 10 Pharmacy customers have lead to increased participation
  
- **Target New innovations by leveraging unique expertise eg Monash Food Innovation Centre**

# MOVE TO STRATEGIC CUSTOMER/SUPPLIER PARTNERSHIPS

- Incremental ranging and channel expansion in over 1000 doors across both Grocery and Pharmacy
  - 9,500 incremental distribution points
    - 6 SKUs in Priceline 131 doors
    - 3 SKUs in Chemist Warehouse +400 doors
    - 15 SKUs in Woolworths +500 doors
- Increased real estate in store (examples below)





# MOVE TO STRATEGIC CUSTOMER/SUPPLIER PARTNERSHIPS

- Consumer led exclusive retailer offers driven by category trends, insights and demand.

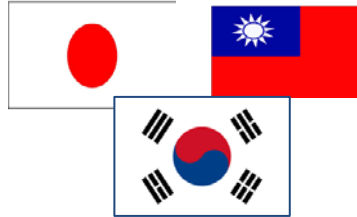


# EXPORT CHANNEL MODELS

## China



## Nth Asia



## UK



## Dubai



% Chg vs YA  
FY18

+600%

100% Incremental

+27%

Flat

Strategy

### New Distribution Models

- Exclusive
- TP / Trader
- Domestic (Exporter/Gift Stores)

Capture new export markets

High Penetration  
Established Market

High Penetration  
Established Market

Brand Focus

- Dr LeWinn's
- A'kin
- Karen Murrell

- Dr LeWinn's
- A'kin

- A'kin
- Moosehead

- A'kin
- Moosehead
- Manicare

Platform

- Wechat, Weishang, Tmall, Taobao
- F'ship Stores
- POP Stores / Beauty

- Classic Distribution Model

- 2 X National Grocery
- National Pharmacy
- Beauty retail
- Airlines / Home Shop

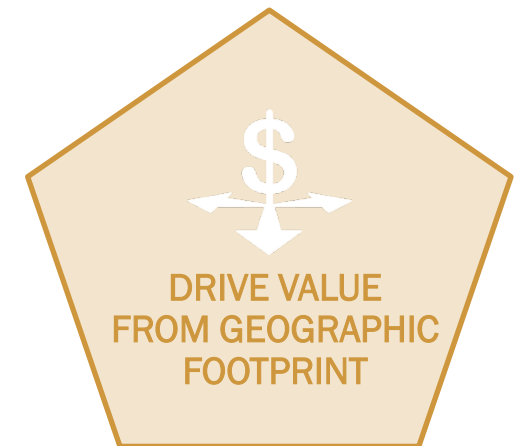
Classic Distribution Model



# OUTLOOK

# STRATEGY FOCUS AREAS - 2HFY18

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# STRATEGY FOCUS AREAS - 2H18

- Major new product launches for Dr. LeWinn's and A'kin to deliver \$1.5m+ sales
- Power launch for Dr LeWinn's Reversaderm secured across major Pharmacy Key Accounts
- Expand A'kin skincare range with double share of shelf
- Launch A'kin influencer campaign to reach 500k+ consumers
- Continue building eco platform with Multix Greener new products
- 4x increase in merchandising capex to amplify in-store presence
- Accelerate digital presence and media +200% through consumer engagement and amplification campaigns



# EXPLORE NEW PRODUCT GROWTH PLATFORMS



## FINANCIAL HEALTH

- Management balance sheet discipline/improvement & HAPL divestment
- Leaving McPherson's **poised** for new Health, Wellness and Beauty Investment Opportunities



## CAPABILITY & CAPACITY

### Consumer & Business Intel.



- 2X Investment
- 3 FTE's & New Tools

### R&D



- 8 FTE's / Specialists
- 25+ HK Sourcing

### Sales & Marketing



- 26 FTE's KAM, 55+ Field
- 30+ Local & Intl Marketers

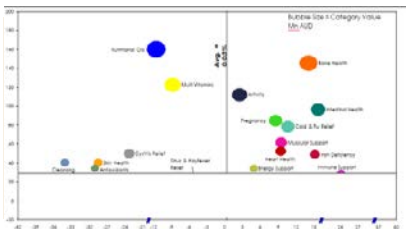
### Supply Chain



- 40% Capacity
- 5,000 Daily deliveries

## COLLABORATIVE PARTNERSHIPS and M&A

### Project Landscape



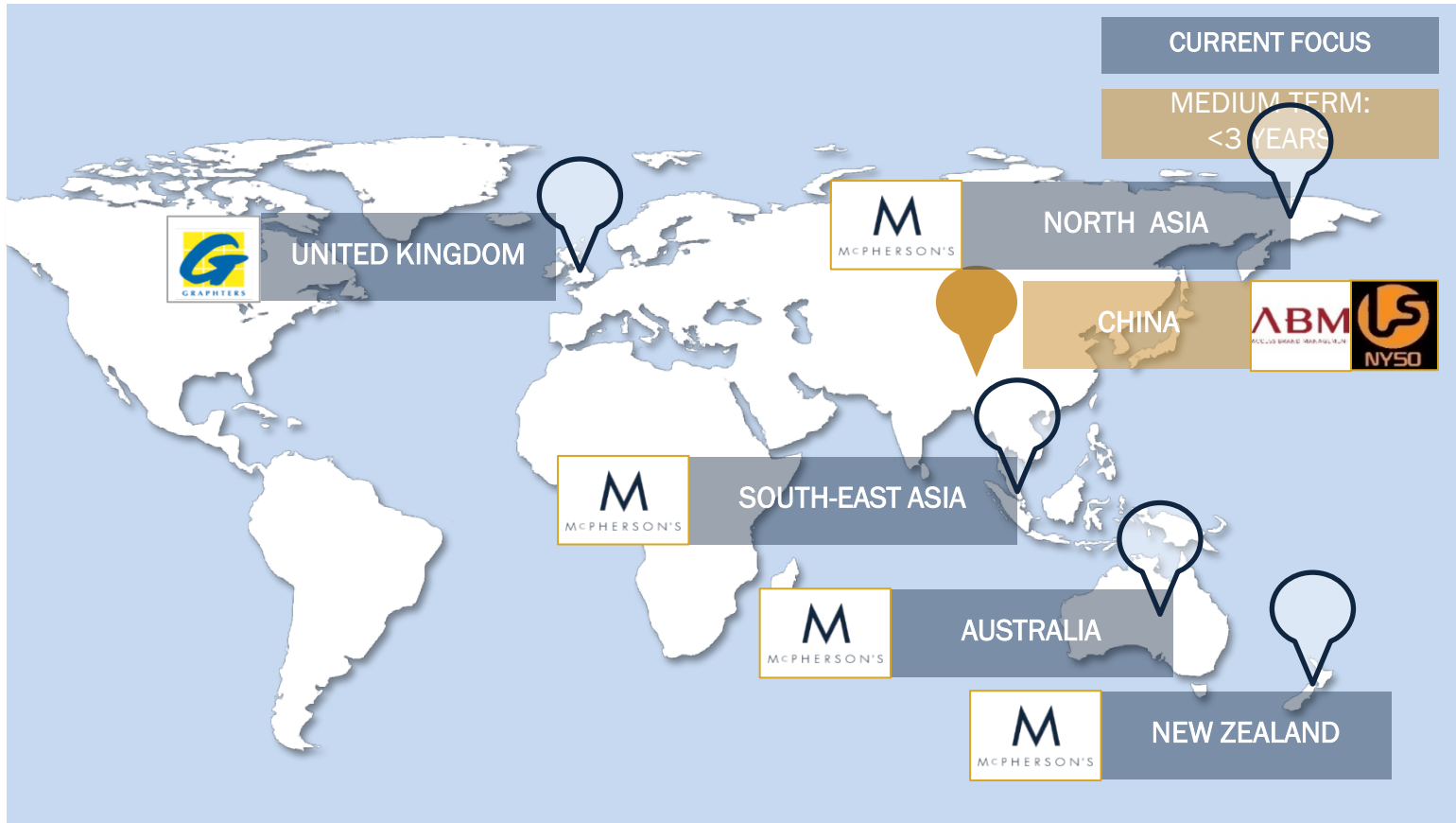
### Agency Partnerships



### M&A - Integ. Turn & Grow



# DRIVE VALUE FROM GEOGRAPHIC FOOTPRINT



## 2H18 focus areas:

- Direct A&P investment in China to Drive Brand awareness
- Adoption of Global strategy for Key Brands (A'kin/DRL)



- Build China E Commerce Platform profile through select partners



# S U M M A R Y

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- **Exclusively focused on growing in \$8.6B Health, Wellness and Beauty categories**
  - Well positioned to deliver improvements in underlying PBT from continuous operations (excluding HAPL for the FY 2018)
- **Accelerating MCP growth brands & premium agency partnerships (Trilogy, Karen Murrell & Bondi Perf)**
- **Winning in Pharmacy and key segments in grocery**
  - #1 Australian Beauty supplier in Pharmacy, doubling our sales over 5 years in this channel and now a top 10 player in-total
- **Demonstrated success in acquired brands – Grown A'kin & Dr. LeWinn's**
- **We have the right Export business model & and relationships**
  - Expanding existing & entering new territories ( UK, China, Japan, South Korea & Taiwan)
- **Re-aligning the organisational capabilities to enable our growth strategies**
- **MCP now poised to divert capital to investments that will enhance our branded footprint and utilise existing capacity and operational / “go to market” strengths**



# *Poised for Growth*



# McPherson's Limited

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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*

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