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ASX Announcement

1H24 Results Summary

23 February 2024

Implementation of new strategy underway with EBITDA and cash generation reflecting early progress

Summary of 1H24 results

- **Sales revenue of $103.4 million (1H23: $112.0 million)**
- **EBITDA before material items of $9.2 million (1H23: $8.9 million)**
- **NPAT of $1.6 million (1H23: $0.1 million)**
- **Improved cash generation of $9.1 million and 110% cash conversion before material items**
- **Strong balance sheet with net bank debt of $4.0 million and gearing of 4%**
- **EPS of 1.1cps (1H23: 0.1cps)**
- **Board has determined to pay an interim dividend of 2.0cps fully franked**

McPherson's Limited (**ASX: MCP**) today released its interim report for the half year ended 31 December 2023. In a time of transformation for the business following the appointment of a new CEO in August 2023 and the strategic reset announced in November 2023, the business has set a solid foundation for future growth while maintaining steady performance.

Lower revenues were chiefly due to the performance of certain supporting portfolio brands, reduced Multix revenues and steps to streamline the portfolio. Earnings improvements have more than offset the impact of lower revenues. The results of early transformation initiatives within the business, together with reductions in input costs, have started to deliver benefits: the gross margin[1] for 1H24 was 51.1% (1H23: 47.5%), and the EBITDA margin[1] before material items was 8.9% (1H23: 7.9%).

McPherson's CEO Brett Charlton said:

> *"It is pleasing to see the early results of our transformation program coming to life and there is positive momentum in the business as we implement our strategic reset. We are beginning to see improved cash generation and gross margins, while our balance sheet remains strong, allowing for disciplined investment in transformation and growth."*
>
> *"While revenues in 1H24 were below the prior comparable period, our new strategy is about unlocking the potential of our core brands, driving sustainable growth and higher returns. We expect to see an increase in activity across our core brands in 2H24 as we invest for growth and drive productivity through technology and more efficient processes.*
>
> *I am more convinced than ever of the potential in the McPherson's business and that we can drive sustainable profits and improve returns for shareholders."*

Update on 1H24 performance

On 15 November 2023, McPherson's announced the Board and leadership team had undertaken a review of the Company's strategy to focus on increasing profitability and improving returns for shareholders.

The new McPherson's strategy aims to drive productivity and growth in higher margin and higher growth categories where McPherson's has a competitive advantage and allows for disciplined re-investment into core brands and portfolio expansion opportunities.

[1] [1]Gross margin and EBITDA margin are both before material items. Refer appendix.

The new strategy focuses on two key categories:

- **Core brands**: McPherson's will focus on five key brands: Manicare, Lady Jayne, Dr LeWinn's, Swisspers and Fusion Health.

- **Supporting portfolio brands**: in addition to McPherson's core brands, McPherson's will continue to support A'kin, Maseur footcare, Wagner vitamins and supplements, Bondi Fragrance, Foster Grant eyecare, INC sports nutrition, Oriental Botanicals and Revitanail.

During 1H24, several steps were taken as part of the implementation of the new strategy, including introducing four new Executive Leadership Team members, streamlining the brand portfolio, redesigning the operating model to remove 40 roles, identifying efficiencies in the supply chain and commencing the previously announced Multix review with KPMG.

In 2H24, the Company is focused on getting the systems, processes and culture in place to execute on its strategy, implementing technology solutions to streamline sales and people management processes, including two modules of Salesforce and reducing the level and complexity of its inventory holdings.

1H24 Commercial Business Unit (CBU) Performance

Australian and New Zealand (ANZ)

Results	1H24 ($m)	1H23 ($m)	Change ($m)	Change (%)
Sales revenue	100.0	107.1	(7.1)	(7%)
EBITDA before material items*	11.8	11.6	0.2	2%

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

Sales of the Company's five core brands – Manicare, Lady Jayne, Swisspers, Dr. LeWinn's and Fusion – declined by 3% to $61.0 million (1H23: $62.7 million). Some of this decline was due to the phasing of the initial order for the strategic agreement with Chemist Warehouse in July 2023.

Dr. LeWinn's performed strongly with sales growth up 8% vs 1H23 to $10.6 million due to a return to full stock and an increased advertising and promotional schedule. Sales of Swisspers ($10.2 million) and Lady Jayne ($9.4 million) were broadly in line with 1H23, while Manicare sales declined by 7% to $23.2 million, largely due to a slowing Glam eyelash category.

Fusion sales were $7.3 million in 1H24, 9% below last year (1H23: $8.0 million). Excluding the impact of 1H23 pipe fill to Chemist Warehouse, Fusion sales increased by 4% in 1H24. Multix revenues were down 11% as consumers switched to value in the category.

The run down of stock in A'kin and the deletion of Moosehead were the main drivers of change in the Portfolio Brands (A'kin, Maseur, Wagner, Bondi Fragrance, Foster Grant, INC, Oriental Botanicals and Revitanail), down 20% to $8.9 million (1H23: $11.2 million).

Despite the impact of the depreciation in the $A/$US exchange rate increasing cost of goods sold by $2.1 million, 1H24 gross margin (excluding the impact of additional EDA amortisation) improved to 50.7% (1H23: 47.5%) because of reduced input costs, particularly sea freight and commodity costs, and the increased higher margin mix of Dr. LeWinn's sales.

Operating expenses before material items decreased by $0.3 million in comparison with 1H23, largely due to decreases in distribution costs, with the full benefit of the headcount reduction announced in November 2023 to come in 2H24.

1H24 EBITDA before material items of $11.8 million was 2% above last year (1H23: $11.6 million).

International CBU

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

Results	1H24 ($m)	1H23 ($m)	Change ($m)	Change (%)
Sales revenue	3.4	4.9	(1.5)	(31%)
EBITDA before material items*	(0.2)	(0.3)	0.1	33%

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

The $1.5 million decline in sales was primarily due to the cessation of the Company's unprofitable agency sales model in the Singapore market. The ensuing reduction in agency sales was $1.3 million. Sales of owned brand products declined by $0.2 million, primarily in the Singapore market, as the Company transitioned from a local office to a distributor model. Sales of Dr LeWinn's products in China were $2.3 million, in-line with 1H23.

Gross margin increased to 53.9% (1H23: 47.1%). Consequently, EBITDA before material items improved $0.1 million to a loss of $0.2 million.

Specific material items impacting statutory results

The Company has recognised a total of $2.6 million specific material items in its 1H24 statutory result (1H23: $4.1 million).

1. $1.8 million of one off restructuring costs, largely due to the reconfiguration of the Company's operations to support its new strategy and removal of approximately 40 roles;
2. $0.2 million of professional fees in response to the claim made by ASIC. Further professional fees are likely to be incurred until the matter is resolved; and
3. $0.6 million amortisation of Exclusive Distribution Agreement (EDA) due to the revision of the amortisation period from 20 years to 5 years. This item may continue to have a material impact on the Group's result until 30 June 2027, being the remaining amortisation period should sales not materialise as expected.

Net Debt and Cashflow

McPherson's balance sheet remains strong with net debt, excluding lease liabilities, of $4.0 million, a reduction of $9.9 million compared to 31 December 2022. The Company's gearing ratio (net bank debt excluding lease liabilities / total funds employed) was 4% at 31 December 2023 (31 December 2022: 10%).

While McPherson's typically has seasonally lower cash flow over the first half of the financial year, cash generation was strong during 1H24 as a result of transformation initiatives within the business. Operating cashflow was $9.1 million, before interest and tax, for the six months ended 31 December 2023 (1H23: outflow of $6.0 million). This represented 1H24 cash conversion of 110% before material items, with net working capital reducing by 21% to $38.8 million over the 12 months to 31 December 2023 (31 December 2022: $49.0 million).

Interim Dividend

Given the Company's strong balance sheet and franking credit balance, the Board has determined to pay an interim dividend of 2.0cps fully franked (1H23: 2.0cps), with a record date of 5 March 2024 and payable to shareholders on 22 March 2024. The interim dividend represents a payout ratio of 97% before material items, in line with the Company's dividend policy to pay a minimum dividend of 60% of profit after tax before material items, subject to other requirements.

Multix brand strategic review

On 15 November 2023, McPhersons announced that KPMG had been appointed to conduct a strategic review of the Multix brand. The review is currently underway, and an update will be provided in due course.

ASIC Matter

As announced to the ASX on 9 December 2022 (see also Note 15 to the FY24 first half report), 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.

Outlook

McPherson's products are in resilient categories, essential products that people need for their everyday lives. While consumer spending and confidence is a driver of McPherson's business, at this stage there is no evidence of material softening in demand from customers for the core brand portfolio. Customer ordering levels and inventory are broadly in line with recent periods. The Company remains focused on implementing its transformation plan.

Authorisation

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

For further information please contact:

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About McPherson's Limited

McPhersons Limited (ASX: MCP) is an ASX listed supplier of essential health, beauty and wellness products. McPhersons products touch 3 out of 4 Australian households according to independent research and include some of Australia's best loved brands: Manicare, Lady Jayne, Dr LeWinn's, Swisspers and Fusion. In addition, McPhersons has a supporting portfolio of popular brands in attractive segments of the market including haircare, vitamins and supplements, fragrance and nutrition. McPhersons' strategy is to capitalise on its strongest brands through expansion and innovation, driving sustainable growth and higher margins from increasing efficiencies. For further information, please visit www.mcphersons.com.au

Appendix – 1H24 & 1H23 Results Summary

Results	**1H24 ($m)**	**1H23 ($m)**	**Change ($m)**	**Change (%)**
Sales revenue	103.4	112.0	(8.6)	(8%)
ANZ EBITDA before material items	11.8	11.6	0.2	2%
International EBITDA before material items	(0.2)	(0.3)	0.1	33%
Unallocated expenses before material items	(2.4)	(2.4)	-	-
EBITDA before material items	9.2	8.9	0.3	3%
EBIT before material items	6.2	5.8	0.4	6%
PBT before material items	5.2	5.1	0.1	3%
PAT before material items	3.6	3.2	0.4	10%
EPS before material items (cents per share)	2.5	2.2	0.3	10%

Statutory results	**1H24 ($m)**	**1H23 ($m)**	**Change ($m)**	**Change (%)**
Sales revenue	103.4	112.0	(8.6)	(8%)
EBIT *	3.6	1.8	1.8	100%
PBT *	2.7	1.0	1.7	N/M
PAT **	1.6	0.1	1.5	N/M
Basic EPS (cents per share)	1.1	0.1	1.0	N/M

Net Bank Debt and Gearing	**1H24 ($m / %)**	**1H23 ($m / %)**	**Change ($m / %)**	**Change (%)**
Net Bank Debt	4.0	13.9	(9.9)	(71%)
Gearing	3.5%	10.5%	(7.0%)	N/M

N/M –% change not considered meaningful.

* 1H24 Statutory EBIT & PBT includes the following pre-tax, specific material items: (i) Restructuring expenses ($1.8) million; (ii) Professional fees in relation to ASIC matter ($0.2) million ; (iii) Amortisation of EDA including impact of shortened period i($0.6) million.

1H23 Statutory EBIT & 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.

** 1H24 Statutory PAT and Statutory EPS include the following after-tax, specific material items: (i) Restructuring expenses ($1.2) million; (ii) Professional fees in relation to ASIC matter ($0.1) million; (iii) Amortisation of EDA including impact of shortened period ($0.6) million.

1H23 Statutory PAT and Statutory EPS include 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.