McPHERSON'S LIMITED
MANAGING DIRECTOR'S ADDRESS
By MR PAUL MAGUIRE
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Good morning. I welcome this opportunity to provide you with an update on the strategy being pursued by the McPherson's team.

Management is very pleased to have reported a material improvement in financial year 2016 statutory and underlying profit despite a second consecutive year of significant devaluation in the AUD/USD exchange rate and sustained higher commodity prices. This is a very creditable result that reflects the success of McPherson's continued 'makeover', with resources now focused on fewer, more significant and more profitable brands with growth potential.

Structural changes and successful operational initiatives, such as IT system enhancements, sourcing savings and 'right sizing' of our sales and back office functions have facilitated a leaner, more focused operation, with the business successfully re-set to operate in today's currency environment.

As emphasised in my recent Full Year Results presentation to the market, McPherson's is a company that has undergone a significant transformation so as to build a more robust consumer focused business able to consistently deliver meaningful profits to shareholders.

In just over four years McPherson's has gone from a combined printing & consumer products business with multiple divisions and a heavy reliance on the grocery channel to a consumer products business with only three divisions, focused on profitable growth across a diverse channel base. A large brand and product portfolio has been replaced with a consolidated brand and product portfolio, housing market leading brands with growth potential.

Operationally we have transitioned from an entity with a large workforce across multiple sites with decentralised corporate functions operating on disparate IT systems, to an entity with a much improved centralised organisational design, new talent within a reduced workforce, operating on a common IT platform with enhanced digital capability.

McPherson's program of transformation has resulted in an improved risk profile due to the strengthening of our balance sheet, a lessened reliance on the grocery channel, increased involvement in the pharmacy and e-commerce channels, reduced exposure to purchases denominated in US dollars, and significantly boosted participation in the more profitable beauty industry. The company is now better placed to meet the needs of its consumers, contend with the demands of its customers, and more readily respond to the vagaries of currency and commodity price movements.

Strategy

McPherson's is a consumer centric organisation committed to providing consumers with innovative, high quality branded products and services that improve their lives.

McPherson's corporate strategy is designed to ensure that we can continue to deliver on this promise. Our strategic plan has seen us substantially increase our presence in the beauty industry; marketing profitable and powerful brands that resonate with consumers, in categories that allow us to use our proven innovation capability to sustainably differentiate products that are sold through more profitable channels such as pharmacy and e-commerce.

McPherson's involvement in the home appliances industry complements the aforementioned, as our efforts are focused on the more profitable 'cooking' category, with which consumers are highly engaged, and it further diversifies the company by increasing the number of channels in which we compete, such as electrical retail and commercial building.

Performance Overview

Three key divisions exist within the business; Health & Beauty, Home Appliances and Household Consumables. Each of these divisions has strong brands, all of which derive significant value from their market heritage, such as:

- **Manicare, Lady Jayne, Dr. LeWinn's** and **A'kin** in Health & Beauty
- **Euromaid** and **Baumatic** in Home Appliances; and
- **Multix** in Household Consumables

In financial year 2016 seventy percent of revenue was derived from McPherson's owned brands, twenty percent from agency partner brands and ten percent from the supply of private label products.

Health & Beauty sales increased by 3% and the division contributed 47% of group revenue, compared with 45% the previous year. A number of smaller peripheral brands were deleted and additional ranging of key brands was secured. Our key brands performed strongly, indicating potential for further growth, which will be leveraged through increased advertising investment in financial year 2017.

The **Home Appliances** division, which contributed 24% of the company's revenue, increased sales by 13%, helped by new product launches; however, margins were affected by the weak Australian dollar and the demise of the Masters Hardware chain. Successful negotiations with suppliers to reduce product costs, together with supply chain savings and selling price increases are expected to underpin profitability in financial year 2017.

The **Household Consumables** division's revenue was 15% lower than the previous year, as some lower margin private label agreements were intentionally exited; however, sales of the market leading brand Multix were in line with prior year. Margins were affected by the weak Australian dollar but easing commodity prices, selling price increases and reduced product costs will support profitability this financial year.

To leverage the company's expertise and successful track record in the grocery channel, a new **Household & Personal Care** division was formed in July 2016, combining the Multix, Swisspers, Moosehead and Maseur brands, all of which are leaders in their categories and predominantly sold in supermarkets.

As announced in July 2016, the small non- core **Impulse Merchandising** business in Australia was closed following the decision by a major Australian grocery retailer to cease its impulse merchandising program. This led to a one-off closure cost, but released approximately $2.0 million of working capital and will marginally improve overall company earnings in financial year 2017.

McPherson's remaining 49% interest in its **Housewares** joint venture was successfully divested to the Fackelmann Group on 31 March 2016, and in October of this year the Fackelmann Group acquired the remainder of the Impulse Merchandising business operating in Singapore and New Zealand.

Operational Initiatives

Before examining in detail the strategic growth initiatives currently being pursued, it is important to elaborate on the operational initiatives that have been implemented to boost efficiency and productivity - and thus profitability. These include IT system enhancements, sourcing savings and restructuring.

Following the upgrade of the Company's IT System in Australia, the company expanded its Australian IT system into New Zealand and Hong Kong, greatly improving operational efficiency. The company is also investing substantially in its digital capability, having unveiled in September 2016 a new digital e-commerce capability utilising the 'Demandware' platform, which enables consumers to purchase products directly from the company.

Complementing the above, price increases were actioned across all divisions, product cost savings were negotiated with many suppliers and restructuring was successfully implemented, delivering an estimated annualised profit benefit in 2016 in excess of **$12 million.** As expected this, coupled with sales growth and lower commodity prices, more than off-set the effect of the Australian currency depreciation in financial year 2016 versus 2015.

Brand consolidation and product range rationalisation have been implemented in Health & Beauty and Home Appliances so as to reduce working capital and optimise asset utilisation, further boosting profitability. The removal of underperforming brands and products from the portfolio has facilitated increased investment in our key beauty brands that have growth potential.

The structure of the organisation has been re-designed in response to our program of brand consolidation and product range rationalisation, our divestments, and increased investment in digital and e-commerce capability.

Growth Initiatives

Growth is being driven by:

- the launch of innovative new product ranges
- optimisation of the growth potential of our key owned brands; and
- continued partnering with prestigious beauty businesses

Across all divisions innovative new product ranges are being brought to market under a multiplicity of brands to replace lesser margin products, drive growth, and off-set the impact of competitor activity and customer private label initiatives. Exciting new products are being launched under brands such as **Multix, Swisspers, Moosehead, Maseur, Euromaid and Baumatic** as well as our key Health & Beauty brands **Manicare, Lady Jayne, A'kin** and **Dr. LeWinn's**.

The Company's transformation timeline highlights that over the past few years the primary driver of diversification has been acquisitions and new agency partnerships. All acquisitions and new agencies have delivered scale, synergies, diversification and solid returns.

Dr. LeWinn's was acquired three years ago and is an iconic skincare brand. A'kin was acquired two years ago and this premium brand embodies ranges of natural skincare and natural haircare products. These brands complement our iconic Manicare and Lady Jayne beauty brands as they leverage the company's 'pick to light' distribution centre, our strength in the pharmacy and beauty channels, and have significant growth potential that is actively being pursued.

With an initial focus on our priority brands Manicare, Lady Jayne, Dr. LeWinn's and A'kin, the content and ease-of-use of the newly implemented digital e-commerce platform will facilitate more meaningful consumer relationships and stronger retailer partnerships, while also providing a convenient platform for direct consumer purchases. This is a major milestone for McPherson's as we can now serve multiple customers across numerous channels as well as sell directly to consumers. Our program of brand consolidation in 2016 has created significant available capacity at the Sydney distribution centre for the warehousing and distribution of more profitable product lines, and this capacity can now be utilised for both customer sales and direct to consumer sales.

The Chinese market represents a largely untapped growth opportunity for the company, particularly the Dr. LeWinn's skincare brand and A'kin natural skincare & haircare brand. Management has diligently researched this opportunity and determined a strategy to expand awareness of a select range of products that are well positioned to meet growing Chinese consumer demand for Australian beauty products. The company has taken its first steps to make its key brands available to Chinese consumers through various channels and it is expected that this initiative will gain momentum throughout financial year 2017.

Agency partnerships with two owners of prestigious beauty brands, Trilogy International (with **Trilogy** and **Goodness** skincare) and Proctor & Gamble (with **Gucci** and **Hugo Boss** fine fragrances), were initially formed in financial year 2015 and continue today; further leveraging McPherson's existing infrastructure and boosting profits for all parties.

The Trilogy brand is a highly regarded and well recognised natural skincare brand within the pharmacy and beauty channels, with a strong heritage in the marketplace. McPherson's has grown the Trilogy brand substantially; providing the Trilogy business with a single, integrated approach to distribution, sales and marketing in Australia. McPherson's distribution agreement with Trilogy International has this month been renewed, effective 1 November 2016 until 31 March 2019. The fine fragrances agency agreement with the newly merged Procter & Gamble and Coty businesses is scheduled for renewal in July 2017.

McPherson's agency partnerships with both Trilogy International and Proctor & Gamble are positives for the business and evidence the capability and strength that McPherson's can bring to bear with respect to the marketing of premium and prestige beauty products across multiple channels.

Our agency partnerships and our more recent acquisitions have undoubtedly reinforced McPherson's beauty industry credentials, strengthened our presence in pharmacies and department stores, provided the opportunity to increase sales in the e-commerce channel both locally and internationally, and highlighted the emphasis that the company places on the premium and prestige segments of the beauty market.

Outlook

The depreciating Australian currency significantly threatened profitability in financial year 2016 but appropriate initiatives were undertaken to counter this, thus delivering a material improvement in financial year 2016 statutory and underlying profit.

Our financial performance in the first four months of this financial year is tracking to plan. Underlying performance in the first half of financial year 2017 will be lower than the prior corresponding period, as the AUD/USD exchange rate experienced in the first half of financial year 2017 will be an estimated US71 cents compared with US78 cents in first half of the prior corresponding period. If the current earnings run rate is maintained, it positions us well for earnings in the second half of financial year 2017 to improve over the prior corresponding period as the currency differential will be minimal. It is too early in the year to quantify this increase, and its full year effect, but we will be in a better position to do so when we announce the first half results in February 2017.

I would like to take this opportunity to thank McPherson's shareholders for their continuing support and our employees for their unwavering commitment and tireless efforts to deliver profit growth in 2016 despite very challenging conditions.

Having taken the helm at McPherson's immediately following the Global Financial Crisis, the team and I were faced with persistent margin contraction brought about by a combination of factors, such as the inevitable shrinking of the book printing industry due to a rapidly evolving digital landscape, intense retailer competition, retailer' determination to drive growth in private label products, and the headwinds of a depreciating currency.

Seven years on, following the de-merger of McPherson's printing business, the divestment of three lower margin businesses, ten acquisitions, the establishment of key agency partnerships, increased participation in more profitable channels and the establishment of e-commerce capability, I am absolutely confident that the improvements we have made will continue to result in a stronger and more profitable company.

Having spent a significant amount of time over the past few months transitioning the leadership of the business to my successor, Laurie McAllister, my belief in the positive future for the business has only strengthened. Laurie and I have spent time together in Australia, New Zealand and Asia and we are aligned in our optimistic view for the business as it enters its next phase of growth.

Laurie would like to take this opportunity to personally introduce himself to the shareholders present.

Laurie McAllister introduction