**Asaleo Care Limited**
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# ASX Release

16 July 2018

## Preliminary 1H18 Results and Revised FY18 Earnings Guidance

Asaleo Care Ltd today announces preliminary half year results for the six months ending 30 June 2018 and a reduction in its full year guidance for the financial year ending 31 December 2018.

**Preliminary Half Year Result**

1H18 results are preliminary and remain subject to review and approval by the Audit and Risk Committee and the Board, and review by the Company's external auditor.

(i) Asaleo Care Limited

| $m | 1H18 | 1H17 | Change |
|---|---|---|---|
| Revenue | 267.2 | 294.2 | -9% |
| EBITDA (underlying) | 46.3 | 60.9 | -24% |

(ii) Business Unit Financials

| $m | 1H18 | 1H17 | Change |
|---|---|---|---|
| Tissue revenue | 188.8 | 206.7 | -9% |
| Tissue EBITDA (underlying) | 20.0 | 32.7 | -39% |
| Personal Care revenue | 78.4 | 87.5 | -10% |
| Personal Care EBITDA (underlying) | 26.3 | 28.2 | -7% |

Underlying EBITDA excludes non-recurring costs, including restructuring costs, impairment and asset write down charges, and strategic review costs.

The decline in 1H18 Financial Results compared to 1H17 is largely due to the following factors:

- Significantly higher pulp and electricity costs of approximately $10 million.
- Lower sales volume in the Consumer Tissue business. Asaleo Care proceeded with a price increase to recoup part of the cost increases. During protracted negotiations with customers, promotions were reduced and in some cases cancelled, and significant volume was lost. These negotiations have now largely concluded with promotions resumed and price increases achieved in many cases.
- Increased trade spend to support market share as a result of continued heavy discounting by competitors.
- Lower sales in the Baby Care business.
- Ongoing investment in product quality improvements for the longer term.
- Lease cost on Springvale property in 1H18 as a result of the sale and lease back in June 2017.

Half year results and detailed commentary on the trading performance will be provided on 21 August as previously scheduled.

**Revision to Full Year Guidance**

As a result of the factors driving the softer 1HF18 results, the Company has undertaken a detailed review of its full year 2018 forecast and guidance. The review concluded that the second half result will be weaker than the first half, contrary to historical half on half performance. The profit improvement initiatives which have been implemented and proposed will not be sufficient to offset the impacts of continuing higher input costs, lost sales in 1H18, and a market place which we expect to remain very competitive. As a result, the Company does not expect to achieve its prior guidance and the revised FY18 guidance follows:

| | **Previous FY18 Guidance** | **Updated FY18 Guidance** |
|---|---|---|
| **Underlying EBITDA** | $113-119 million | $80-85 million |

**Primary drivers for change to FY18 Guidance**

**1) Sustained higher pulp costs**

- We now anticipate historic high pulp prices will continue in 2H18. We expect pulp costs will be approximately $24 million higher year on year.

**2) Consumer Tissue pricing and lower sales volume**

- In H1, Asaleo Care proceeded with a price increase to recoup part of these cost increases. As mentioned, significant volume was lost during protracted customer negotiations.
- Despite significant input cost increases, we have not seen price increases by competitors.

- We have made a decision to invest in additional Trade Spend to support market share in H2 and beyond.

**3) Competition in Feminine Care and Baby Care markets**

- There has been continued intense competition in the Feminine Care and Baby Care markets with significant price discounting. In response, we increased investment in trade spend to support market share and expect this to continue.
- The Feminine Care market share that was lost during FY17 is being regained at a slower rate than expected as a result of continued intense competition.
- Our Baby Care market share has continued to decline and we do not anticipate significant growth in H2.

**4) Other comments**

- Professional Hygiene and Incontinence Care are performing in line with previous expectations.
- We expect new product development initiatives to support market share in FY18 and beyond.
- We refinanced the part of our debt facilities that was scheduled to mature in June 2019. We also took the opportunity to reduce pricing and readjust the other parts of our debt at the same time. Total debt facilities have been increased to $400 million from $350 million with maturity dates between July 2021 and July 2028. Accordingly, all debt is classified as non-current. Net debt at 30 June 2018 was $309.7 million ($279.1 million at 31 December 2017) and all debt covenants were complied with at 30 June 2018.

**Impairment and Asset Write-Down Charges**

Asaleo Care is currently undertaking an impairment assessment of the carrying values of assets on the balance sheet. Impairment indicators are evident, including the weaker trading performance expected in FY18. Subject to review by the external auditor, at 1H18 we expect to recognise material charges for impairment and write-down of assets which will be primarily non-cash. Any such charges will be disclosed within the 1H18 results as non-recurring costs and will not impact Underlying EBITDA.

**Strategic Review**

In response to the ongoing increases in input costs (especially pulp and energy) and challenging consumer market trading conditions, we are undertaking an in-depth strategic review across all divisions. The objective of this review is to design and implement the most efficient structure and business model to position the Company for sustainable long term growth and to maximise Return on Invested Capital over the medium and long term. We expect to provide an update on the outcome of the review in the last quarter of 2018.

Commenting on the Preliminary Results and Revised Earnings Guidance, Interim CEO, Mr Sid Takla said, "Whilst it is disappointing to announce reduced results and outlook for the full year, we have made tough decisions for the long term benefit of the company. We believe that implementation of initiatives from the strategic review will put the Company in a strong and sustainable position.

We will also continue to mitigate cost imposts to strengthen our medium to long term results and returns, and are confident that a renewed focus on brand and product development initiatives will enhance our value proposition to consumers.”

- ENDS –

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