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

The reported results in financial year 2015 were disappointing, with a 19.5% reduction in underlying earnings per share versus the prior year despite a strong revenue performance. I will now outline the reasons for this poor profit outcome, what has been done in response, what we are planning to do, and the outlook for financial year 2016.

As emphasised in my recent full year results presentation to the market, McPherson's is a company undergoing a significant transformation with the objective of building a robust consumer focused business able to deliver a sustained improvement in profit. McPherson's will emerge as a more focused company with scope to invest in growing the most profitable brands within our portfolio. We are confident this is the most effective response to the changing and challenging market conditions that we have faced over recent years. Once complete, we will be better able to contend with the increasing demands of our retail customers, lessen our reliance on any one channel, and more readily respond to the vagaries of currency and commodity price movements.

Strategy

At its heart, 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 transformation is designed to ensure that we can continue to deliver on this promise.

Our plan sees us substantially increasing 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 our products, and 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.

Over the past few years we have substantially transformed and diversified by:

- developing and launching comprehensive new innovative product ranges
- partnering with prestigious beauty businesses
- acquiring a number of earnings accretive businesses, delivering synergy benefits and providing growth within more profitable channels; and
- partially divesting McPherson's housewares business through the establishment of a joint venture with a global housewares manufacturer

Having made eight acquisitions in the past three years, in line with our stated strategy, we are not pursuing further acquisitions at this point in time. In contrast, divestments still form an important part of our broader strategy, with the 'Multix' brand currently being held for sale, and the remaining share of the housewares business to be divested as early as January 2016, subject to an agreed performance level being achieved in calendar 2015.

McPherson's continued program of transformation will assist in better managing risk by strengthening the balance sheet, lessening our reliance on the grocery channel, increasing involvement in the pharmacy and e-commerce channels, reducing exposure to purchases denominated in USD, and considerably boosting participation in the more profitable beauty Industry.

Performance Overview

Despite management successfully executing a number of significant transactions and implementing numerous beneficial operational initiatives over the past three years, McPherson's margins have declined in the face of strengthening revenues. It is important to acknowledge that the business has had to withstand the significantly adverse impact on profit of a rapidly depreciating Australian currency coupled with sustained high commodity prices, which in combination entirely off-set the financial benefits of our transformation program in financial year 2015.

Mitigation of the adverse impact of these variables on profit was greatly hampered by our retail customers insisting on prolonging price increase negotiations, thus bringing about a delay in the realisation of the benefits of our transformation program. Nonetheless, I am pleased to say that we have now successfully concluded price negotiations and re-set the business for today's environment.

There are four key divisions within the business; Health & Beauty, Home Appliances, Household Consumables and Housewares. 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** in Home Appliances
- **Multix** in Household Consumables; and
- **Wiltshire** and **Stanley Rogers** in 'McPherson's Housewares' joint venture

The Health & Beauty division grew this past year due to acquisitions, new agencies and new products, and this division is strategically positioned to be the major source of future growth and profitability. In financial year 2015 McPherson's was proud to win Priceline's 'Beauty Supplier of the Year' award and National Pharmacies' 'Supplier of the Year' award, both of which are a testament to the team's passion and capability.

Like the Health & Beauty division, the Home Appliance division grew in its own right, and this business will continue to expand and grow, benefiting from new management, operational initiatives, new ranging and strong building approvals.

The Household Consumables division retained its market leadership position with the Multix brand; however, in financial year 2015 this business bore the brunt of the depreciating Australian currency and sustained high commodity prices. The situation was exacerbated by protracted negotiations with customers to remedy the adverse effect of these variables on both branded and private label products. Some private label contracts have now been exited and margins on the remaining private label business will benefit from recent price negotiations. Easing commodity prices, new ranging, and customer price increases will restore branded profitability.

The Housewares joint venture declined in revenue this past year as a consequence of a planned range rationalisation of lower margin products. Profit restoration is now flowing through as a result of substantial new ranging and price increases.

Operational Initiatives

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

Following the upgrade of the Company's IT System in Australia, the newly upgraded IT system was rolled-out to McPherson's New Zealand business in the first half of financial year 2015. This was done in conjunction with outsourcing the logistics function in New Zealand to a third party service provider, capitalising on the third party's scale and capability. The transformation of our New Zealand business has created the opportunity to further harmonise brand portfolios as well as company structure, and remains essential to ensuring McPherson's long term competitiveness in New Zealand.

Complementing the above; price increases have been actioned across all divisions, product cost savings have been negotiated with suppliers, and planned restructuring has recently been implemented, delivering an estimated annualised profit benefit in excess of $10 million. This, coupled with sales growth and lower commodity prices, is expected to more than off-set the effect of the Australian currency depreciation in financial year 2016 versus 2015. Future financial performance will be boosted by further volume growth, price increases, restructuring and reduced operational expenditure.

Brand consolidation and product range harmonisation are in progress in Health & Beauty and Home Appliances so as to reduce working capital and optimise asset utilisation, further boosting profitability. Brand consolidation relates to the removal of underperforming brands from the portfolio and product range harmonisation is the establishment of consistent product ranges that can be marketed in multiple regions. This activity will facilitate increased investment in our key beauty brands, which have significant growth potential.

The structure of the organisation is currently being re-designed in response to the anticipated reduction in the number of brands and product lines, our planned divestments and increased investment in digital and e-commerce capability.

Growth Initiatives

Growth is being driven by:

- the launch of innovative new product ranges
- the establishment of 'McPherson's Housewares' joint venture
- partnering with prestigious beauty businesses; and
- optimisation of the growth potential of recent acquisitions

Numerous innovative new product ranges are being brought to market across all divisions to drive growth and off-set the impact of competitor activity and customer private label initiatives.

A successful growth initiative, which crystallised last November, was the formalisation of 'McPherson's Housewares' joint venture with the Fackelmann Group; a global manufacturer and distributor of housewares products, headquartered in Germany. Fackelmann is an accomplished global player in the housewares industry, operating multiple manufacturing and distribution centres worldwide. The formalisation of the joint venture partnership involved McPherson's divesting a 51% share of its Australia/Singapore/Hong Kong housewares business to Fackelmann on 1 November 2014, with a 51% share of the New Zealand housewares business being divested 1 July 2015. The result has been the creation of a much more powerful and effective housewares enterprise due to our collective strengths and scale, enhanced sourcing and manufacturing capability, and larger brand and product portfolio.

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 been successfully integrated; delivering scale, synergies, diversification and solid returns.

New agency partnerships were formed in financial year 2015 with two owners of prestigious beauty brands, Trilogy and Proctor & Gamble, further leveraging McPherson's existing infrastructure and boosting future 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. Within only a short time, McPherson's has grown the Trilogy brand substantially; providing the Trilogy business with a single, integrated approach to distribution, sales and marketing in Australia.

While initial sales of Procter & Gamble's fine fragrances (**Gucci, Dolce&Gabbana and Hugo Boss**), for which the company received the agency in August 2014, were lower than expected due to delays in re-establishing distribution, the performance of this business has improved considerably. McPherson's success with the launch of the new 'Dolce&Gabbana Intenso' fine fragrance for men led Proctor & Gamble to award McPherson's 'Best International Launch' at its recent International Distributor Conference.

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

Dr LeWinn's was acquired two years ago and is an iconic skincare brand. **A'kin** and **Al'chemy** were acquired in the first half of financial year 2015 and these premium brands embody ranges of natural skincare and natural haircare products. All three brands 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. Our increased investment in digital and e-commerce capability is focused on these brands.

Our most recent acquisitions and new agencies undoubtedly reaffirm McPherson's beauty industry credentials, strengthen our presence in pharmacies and department stores, provide the opportunity to increase sales in the e-commerce channel, and highlight the emphasis that the company places on the premium and prestige segments of the beauty market.

Outlook

The depreciating Australian currency caused a significant fall in profitability in the second half of financial year 2015 but appropriate steps have been taken to counter this and we are recovering well. All the issues within our control that affected our performance in the second half of financial year 2015 have been addressed and, coupled with recent customer price increases, will result in improved profitability in financial year 2016.

Financial performance in the first half of financial year 2016 is expected to be approximately in line with the prior corresponding period. If this run rate is maintained, it positions us well for the second half of financial year 2016 and would allow us to improve significantly over the very disappointing prior corresponding period. It is too early in the year to quantify this increase but we will be in a position to do so when we announce the first half results in February 2016.

I would like to take this opportunity to thank McPherson's employees for their commitment and contributions during a very challenging year and our shareholders for their continuing support. I am absolutely confident that the improvements we have made, and continue to make, will result in a stronger and more profitable company.

About McPherson's

McPherson's, established in 1860, is a leading supplier of health & beauty, consumer durable and household consumable products in Australasia, with operations in Australia, New Zealand and Asia. The Health & Beauty Division markets and distributes beauty care, hair care, skin care and fragrance product ranges; the Home Appliance Division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers; and the Household Consumables Division markets and distributes kitchen essentials such as plastic bags, baking paper, cling wrap and aluminium foil.

The Housewares Division markets and distributes products such as cutlery, knives, bakeware and kitchen accessories under brands such as Wiltshire, Stanley Rogers, Furi and Luigi Bormioli. McPherson's has a 49% stake in this division with the remaining 51% owned by the Fackelmann Group. Founded in Germany in 1948, the Fackelmann Group is a global manufacturer and distributor of kitchen, baking, home, leisure and bathroom products.

McPherson's manages some significant brands for overseas agency partners such as Gucci, Dolce&Gabbana and Hugo Boss Fine Fragrances; however, the majority of revenue is derived from the company's diversified portfolio of owned market-leading brands, including Manicare, Lady Jayne, Dr LeWinn's, A'kin, Al'chemy, Swisspers, Moosehead, Maseur, Euromaid, Baumatic and Multix.