McPHERSON'S

McPherson's Limited

Results for the Half Year Ended 31 Dec 2013

Paul Maguire – Managing Director

Paul Witheridge – Chief Financial Officer

25 February 2014

MCP 1H FY2014 Financial Results

- Sales Revenue of $180.6m, 17.9% above last year
- Comparable sales in line with 1H FY2013, i.e. excluding acquisitions
- Underlying EBIT of $17.5m, 2.3% below last year
- Underlying PAT of $10.2m, 1.9% below last year
- Underlying EPS of 11.2 cents, 21.7% below last year
- Acquisitions made over past 2 years are all performing well

MCP 1H FY2014 Financial Results

- Underlying cash flow from operations before interest and tax payments of $8.4m, 3.4% above last year
- EBIT Interest Cover[(1)] of 4.9 times and Leverage Ratio[(2)] of 2.50 for the 12 months to 31 December 2013
- Interim dividend of 6 cents per share fully franked
- Dividend Reinvestment Plan (DRP) retained
- Consistent approach to FX hedging

1. Normalised LTM EBIT / Net borrowing cost
2. Net Debt / Normalised LTM EBITDA

Note that normalisations include the full year effect of acquisitions and divestments and non-recurring items

MCP 1H FY2014 Financial Results

Non-cash impairment of intangible assets

- $80.0m pre-tax non-cash impairment of intangible assets
- Reflects current challenges – AUD/USD devaluation, cost pressure, increased private label and increased support required by major customers
- Revision of key assumptions – including AUD/USD exchange rate and EBIT growth
- Strong support from lenders maintained, with consent to increase the Gearing Ratio threshold to 55%

Strategy Update

Paul Maguire

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What has challenged the business?

- USD product cost increases ex Asia and a decline in the value of the AUD
- Continued cost inflation locally
- Increased support required by customers in a subdued retail environment
- Private label emphasis in various retail chains
- Delays in the implementation of retail price increases

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Company transformation...

McPherson's stated strategy is to substantially transform its business through acquisition/divestment, the establishment of new agency relationships and channel expansion; diversifying away from margin constrained channels and increasing participation in channels with greater profit potential

To this end, we have demonstrated the ability to...

- ... identify, acquire and successfully integrate EPS accretive businesses, delivering the anticipated synergy benefits and providing growth within more profitable channels
- ... divest an underperforming business, thus exiting a lower margin channel
- ... attract profitable new agency brands; *and*
- ... develop and launch comprehensive new innovative product ranges within existing profitable channels, as well as expanding within newer more profitable channels

Things we have achieved so far…

- Substantially streamlined the business post the McPherson’s Printing Group de-merger
- Successfully integrated six EPS accretive acquisitions delivering scale, synergies & diversification
- Upgraded systems and processes (IT and Continuous Improvement initiatives)
- Created available capacity for 2000+ additional product lines at the Kingsgrove distribution centre
- Introduced a Quality Program to improve productivity, customer service and profitability
- Significantly rationalised product ranges, leading to substantially reduced overheads
- Successfully implemented price increases across all channels

Divisional Summary

	% of Total Revenue*	% Revenue Growth**	Reasons	Outlook
HEALTH & BEAUTY	33%	3.5%***	New products + acquisitions	Growth
HOME APPLIANCES	15%	n/a	n/a	Growth
HOUSEWARES	24%	7.8%	New products + clearance activity	Sales decline (but improved profitability)
HOUSEHOLD CONSUMABLES	28%	(4%)	Net effect of category review outcomes	Steady

* Assumes full year sales from Home Appliances acquisition / ** % growth is Cal' 2013 versus Cal' 2012 / *** Growth rate excluding acquisitions and IMD = 1.0%

Health and Beauty

Current Status

- Health & Beauty YTD Sales excluding acquisitions in line with prior period
- Successful new product launches under trusted brands
- Dr LeWinn's and Revitanail brands acquired Nov 2013, increasing McPherson's presence in the Pharmacy channel and reaffirming McPherson's Beauty industry credentials

Outlook

- Synergies from recent brand acquisitions
- Continued growth through:
  - new product development
  - the establishment of new agency relationships
  - the potential for further acquisitions, utilising available warehouse capacity for 2000+ product lines

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Home Appliances

Euromaid

Baumatic®
APPLIANCE CHIC

Current Status

- Home Appliances acquired Apr 2013 and Think Appliances Nov 2013
- Diversification for McPherson's into electrical, hardware & commercial
- Organic sales growth of 16% YTD
- Successful new product launches under trusted brands
- Price increases implemented Sep 2013
- Strong supplier network

Outlook

- Synergies from Think acquisition
- Housewares division merged during 2014
- Continued growth through:
  - new product development
  - expansion within existing categories & channels
  - expansion into new categories, channels & markets; and
  - further price increases

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Housewares

Current Status

- » Recent product range rationalisation leading to overhead reductions and an increased focus on major owned brands
- » Profit adversely affected by private label, product cost increases ex Asia and additional support required by customers
- » Price increases implemented Sep 2013
- » Diversification into electrical retail channel

Outlook

- » Further product range rationalisation to boost profitability
- » Exit from the low margin foodservice channel
- » Further overhead reductions
- » Further price increases
- » On-line selling initiatives
- » Merger with the Home Appliances division
- » Development of new product ranges delivering acceptable levels of profitability

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Household Consumables

Current Status

» YTD Sales decline of 4%

» Profit significantly impacted by:
  - lower sales
  - protracted negotiations prior to acceptance of price increases
  - product cost increases ex-Asia
  - AUD decline
  - increased private label in-store
  - increased ‘support’ required by customers
  - customer reductions in inventory holdings

Outlook

» Steady sales supported by innovative new products

» Sourcing initiatives to underpin profitability

» Favourable impact of price increases

Summary of initiatives being actioned...

- Further Housewares product range rationalisation delivering a net increase in profit
- Roll-out of the newly upgraded IT system internationally to boost productivity and profit
- Additional overhead reductions in response to the above
- Implementation of further price increases to restore profitability
- Merger of the Home Appliance and Housewares divisions to unlock synergies
- Removal of underperforming assets to mitigate risk and further diversify the Company
- Launch of new innovative products to support the portfolio of market leading brands

Outlook

- Challenging trading conditions, with full year underlying EBIT & NPAT approximately in line with prior year and EPS 15% below due to issuance of equity to fund acquisitions
- Continued strong performances from Health & Beauty and Home Appliance divisions
- Profit restoration initiatives improving Housewares & Household Consumables divisions
- Continued Housewares range rationalisation resulting in further overhead reductions
- Key operational initiatives delivering gains in productivity and profitability
- Further business diversification

QUESTIONS

Mission

To be a world class consumer products company

through

1st choice products for consumers

and by being a

1st choice partner for customers and suppliers

1st choice employer for employees

1st choice investment for shareholders

Appendix
McPherson's Limited - Financial Performance for the Half Year Ended 31 December 2013

Paul Witheridge
Chief Financial Officer

Group Financial Summary for H1 2014 Excluding non-recurring items

	December 2012 ($A million)	December 2013 ($A million)	
Sales	153.2	180.6	17.9% Sales increase
EBITDA	19.3	19.0	
Depreciation & amortisation	(1.3)	(1.5)	
EBIT	**18.0**	**17.5**	2.3% EBIT decline
Interest	(3.2)	(3.3)	Interest cover 5.3 times
NPBT	**14.8**	**14.2**	3.7% NPBT decline
Tax	(4.4)	(4.0)	
NPAT	**10.4**	**10.2**	1.9% NPAT decline
Operating cash flow (before interest and tax)	8.2	8.4	
EPS excluding non-recurring items (cents)	14.3	11.2	
EPS (cents)	15.0	(77.9)	
Interim dividend (cents)	10.0	6.0	

Group Financial Summary for H1 2014

Statutory (including non-recurring items)

	December 2012 ($A million)	December 2013 ($A million)
NPBT excluding non-recurring items	14.7	14.2
Non-recurring items:		
- Impairment of intangibles	-	(80.0)
- Restructuring costs	-	(1.1)
- Other non-recurring items	0.5	(0.6)
Statutory NPBT	**15.2**	**(67.5)**
Income tax expense	(4.3)	(3.0)
Statutory NPAT	**10.9**	**(70.5)**
Statutory EPS	**15.0**	**(77.9)**

Non-Recurring Items

The following non-recurring items are included in statutory profit / (loss) before tax:

	December 2012 ($A million)	December 2013 ($A million)
Impairment of intangibles	-	(80.0)
Contingent consideration adjustment	0.6	-
Restructuring costs – redundancies and inventory clearance	-	(1.1)
Acquisition costs	(0.1)	(0.6)
Total non-recurring items before tax	**0.5**	**(81.7)**
Total non-recurring items after tax	**0.5**	**(80.7)**

Overview of Group Balance Sheet

	December 2012 ($A million)	December 2013 ($A million)
Inventories	55.6	72.8
Receivables	71.3	74.7
Payables	(36.4)	(46.9)
Net working capital	90.5	100.6
Property, plant & equipment	7.7	7.3
Intangibles	191.1	113.4
Assets held for sale	-	2.1
Provisions & other net liabilities	(13.8)	(23.1)
Total funds employed	275.5	200.3
Net financial debt	(85.2)	(91.7)
Net tax balances	(10.7)	(10.5)
Shareholders' funds	179.6	98.1
Gearing [Net debt / (Net debt + Shareholders' funds)]	32.2	48.3
Group underlying EBIT / Total funds employed*	6.5%	6.3%
ROSF (underlying NPAT / Shareholders' funds*)	5.8%	5.7%

* Total funds employed and shareholder's funds exclude the $80.0m impairment of intangibles charged at 31 December 2013

Group Operating Cashflow

	December 2012 ($A million)	December 2013 ($A million)
Cash flows from operations		
Receipts from customers (inclusive of GST)	154.5	182.1
Payments to suppliers and employees (inclusive of GST)	(146.4)	(173.6)
Net cash inflows from operations before interest and tax	8.1	8.4
Net interest and borrowing costs paid	(4.3)	(3.3)
Income tax paid	(3.0)	(2.6)
Net cash inflows from operations	0.8	2.5

Group Investing Cashflow

	December 2012 ($A million)	December 2013 ($A million)
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(1.5)	(0.8)
Payments* for acquisition of business assets	(4.6)	(23.0)
Payments for purchase of intangibles	-	(0.6)
Net cash outflows from investing activities	(6.1)	(24.4)

* 2013 Dr LeWinn's / Revitanail ($15.3m); Think Appliances / Baumatic ($2.4m); Maseur ($5.3m)
2012 Footcare ($4.6m)

Group Cashflow

	December 2012 ($A million)	December 2013 ($A million)
Cash flows from financing activities		
Net proceeds from capital raising	-	4.7
Net proceeds from borrowings	10.0	22.1
Dividends paid (net of DRP)	(3.8)	(4.8)
Net cash inflows from financing activities	6.2	22.0
Net increase in cash held	0.9	0.1

FX Hedging (Australia)

» Comprehensive FX hedging program in place using Options, Forward Exchange Contracts (FECs) and Collars:

Options	Protect downside with premium cost but allow upside benefit
FEC's	Fixed rate with lost forward points
Collar	Improved downside protection in exchange for limiting upside

Current Policy

* Hedge 8 months forward on a rolling basis for 100% of USD requirements.
* Options to comprise at least 50% of 8 month requirement. Options, FEC's and tunnel collars to be used for remaining 50%.
* FEC's placed covering:
  - Next 30 days where strike is 8 cents above the protected rate; and
  - Next 31 to 90 days where strike is 10 cents above the protected rate.

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

Statements contained in this presentation, particularly those regarding possible or assumed future performance, estimated company earnings, potential growth of the company, industry growth or other trend projections are or may be forward looking statements. Such statements relate to future events and expectations and therefore involve risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward looking statements.