



TENA

## 2020 Half Year Results

**Sid Takla**

CEO & Managing Director

**Campbell Richards**

Chief Financial Officer

18 August 2020



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# Key Highlights

*Focus on customer, delivering profitable market share growth*



- **Revenue growth of 10%**

- Continued investment in our brands delivering market share growth
- COVID-19 panic buying boosted sales in March/April, eased back in May/June
- Successful NPD ranging & activation

- **EBITDA growth of 24%**

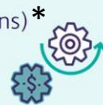
- Incremental margin from sales growth
- Pulp price benefits, partly offset by unfavourable FX and significant insurance cost increases

- **Proactive portfolio management** – decision made to exit loss-making Baby Diaper business in NZ

- **Strong cashflow** – debt reduced a further 14% this half (55% reduction in the last 18 months)

## Financial Performance

**Revenue** (continuing operations)\*  
UP TO  
**10%** **\$215m**



**EBITDA** (continuing operations)\*  
UP TO  
**24%** **\$49.4m**



**Brand investment**  **↑10%**

**Statutory NPAT**  
UP TO  
**158%** **\$18.8m**



## Capital Efficiency

**Working capital**  
DOWN TO  
**24%** **\$45.3m**



**Leverage ratio**  
DOWN TO  
**1.4 times**



**Net debt**  
DOWN TO  
**14%** **\$118.9**



**Earnings per share** (continuing operations)\*  
UP TO  
**53%** **4.2 cents**












On track to deliver full year Underlying EBITDA guidance at upper end of \$84-\$87m range

\* Continuing operations excludes the Baby division

# Asaleo Care Business by Segment



B2B		Retail			
Australia & New Zealand		Australia & New Zealand	New Zealand	Pacific Islands	
<i>Professional Hygiene</i>	<i>Incontinence Healthcare</i>	<i>Feminine Hygiene</i>	<i>Incontinence Retail</i>	<i>Consumer Tissue</i>	<i>Tissue and Personal Care</i>
				  	 

Revenue*	
52%	48%

EBITDA*	
49%	51%

B2B

RETAIL

\* Continuing operations: excludes the Baby division

# Business to Business (B2B) Segment Performance

*Strong growth in Incontinence Healthcare, resilience in Professional Hygiene*



## Professional Hygiene revenue up 2.5%:

- COVID-19 panic buying in March/April across all categories. Heightened hygiene awareness driving increased demand on soaps, sanitisers, hand towel and wiping products
- Lockdown measures have heavily impacted sales into HORECA, Office Cleaning & Education sectors partly offset by strong performance in Healthcare and Food-processing sectors due to increased hygiene requirements

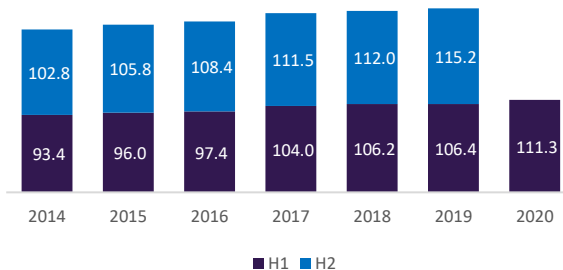
## Incontinence Healthcare revenue up 11%:

- Increased focus on quality of patient care driving strong TENA sales
- Share growth supported by our ability to supply incremental COVID driven demand
- Some customers holding extra inventory to assure supply of an essential product during COVID-19, we anticipate this will correct in H2

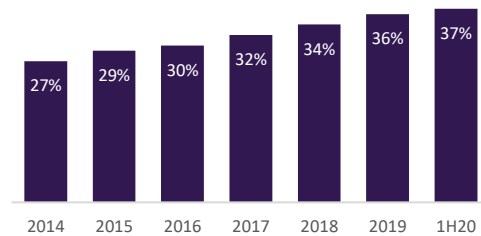
**B2B margin favourable 2.4pp** - favourable pulp prices plus cost savings delivered from our new manufacturing investment in NZ last year, partly offset with unfavourable FX and insurance cost increases

B2B \$M	Continuing 1H20	Continuing 1H19	Δ %
Revenue	111.3	106.4	4.6%
EBITDA	24.4	20.8	17.3%
EBITDA %	21.9%	19.5%	2.4pp

B2B NSV History (\$M)



Hero Systems - % of Professional Hygiene sales



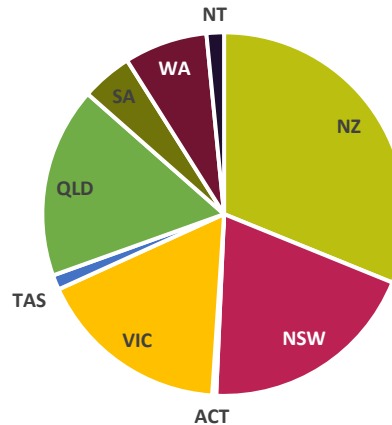
# COVID-19 Implications on the B2B segment

*Resilience in B2B earnings driven by industry sector and regional diversification*

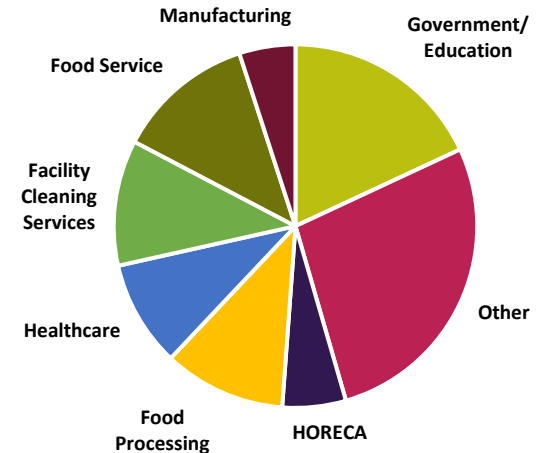


- Lower away-from-home activity has impacted sales in the HORECA, Education & Office cleaning sectors. This has partly been offset by increased hygiene requirements in Healthcare, Food Processing and general Facility Cleaning Services
- Second COVID-19 wave in Victoria temporarily dampening away-from-home activity, further impacting Professional Hygiene performance in that state. Victoria represents less than 20% of total Professional Hygiene sales
- Sales activity in other Australian states has improved post the first COVID wave but overall away-from-home activity is expected to remain down on last year
- Removal of COVID-19 domestic lockdown restrictions in New Zealand has seen a strong bounce back in June/July sales.
- COVID-19 is not a direct driver of an increase in consumption in Incontinence Healthcare, but it has heightened focus on “quality of care” underpinning strong growth for TENA

Professional Hygiene Sales by Region\*



Professional Hygiene Sales by Industry sector\*



\*2019 full year data for Professional Hygiene

# COVID-19 Implications on the B2B division

*The increased focus on hygiene bodes well for Asaleo Care growth*



## Opportunities

- Change in personal and workplace hygiene habits and requirements leading to increased usage of sanitisers, soap, hand towel and wiping products
- Increased awareness of effectiveness of drying hands driving shift from air dryers to paper towels
- Greater acceptance of single use disposable products that are more hygienic
- Increase in requests for no-touch sensor dispensers
- Strong customer and consumer sentiment towards locally manufactured product providing a competitive advantage for Asaleo Care

## Challenges

- Away-From-Home activity impacted heavily in certain industry sectors. Ongoing lockdown measures will continue to impact Professional Hygiene sales
- Victorian Government Schools initiative to provide free feminine care products – revenue from replenishment service impacted by school lockdowns

## Accelerated New Product Development

### New sanitisers + mounting solutions



### Portable wiping caddies



### Disinfecting wipers



## Emphasising our expertise in hygiene



Hygiene Tips



Still using  
air dryers?

Gambling  
with hygiene?

Don't  
blow it



You can  
touch this



# Retail Segment Performance

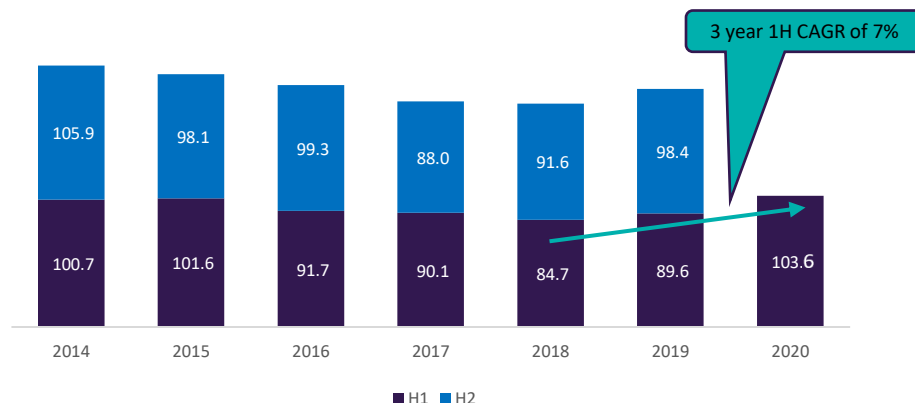
*Profitable market share growth achieved in all key categories*



- Both Australian and New Zealand businesses were favourably impacted in 1H20 by unprecedented demand in March and April from COVID-19 panic buying
- Market share growth achieved in all key categories driven by:**
  - Continued investment in the Brands
  - Local manufacturing capabilities provided ability to respond quickly to COVID-19 demand spikes
  - Extended range and distribution
  - NPD including new Libra packaging, Tena Men and Tena Discreet
- Consumer Tissue New Zealand Revenue up 12.4%**
- Feminine Care Revenue up 24.4%**
- Incontinence Care Revenue up 18.7%**
- Margin improvement of 2.9pp** driven by retailer cancellation of promotional activities during COVID panic-buying, favourable pulp costs, slightly offset with unfavourable foreign exchange and insurance cost increases. Some A&P spend was deferred to 2H20 to reduce pressure on supply network

Retail \$M	Continuing 1H20	Continuing 1H19	Δ %
Revenue	103.6	89.6	15.6%
EBITDA	25.0	19.0	31.6%
EBITDA %	24.1%	21.2%	2.9pp

Continuing Retail NSV History (\$M)





# COVID-19 Implications on the Retail division

*Our focus remains on underlying share growth activity*



## Opportunities

- Customer & Consumer support of locally produced products has increased markedly as a result of COVID-19. Communications to emphasise that Asaleo Care is the only local manufacturer of Feminine and Incontinence Care products
- More in-home activity will drive higher consumption of consumer tissue products in NZ
- Focus will remain on activity to drive share growth including extension of ranging and distribution of NPD e.g. Libra Extra Wide & Long, Libra Night pants, TENA Discreet black pants

## Challenges

- Some range reviews postponed due to COVID-19, delaying further opportunities of ranging of NPD
- Victorian Government Schools initiative to provide free feminine care products - consumption impacted by school lockdowns



Extra Wide & Long



Night Pants



Black Pants



# COVID-19 Impact on Company Operations

*Keeping our team safe & ensuring supply of our essential products*

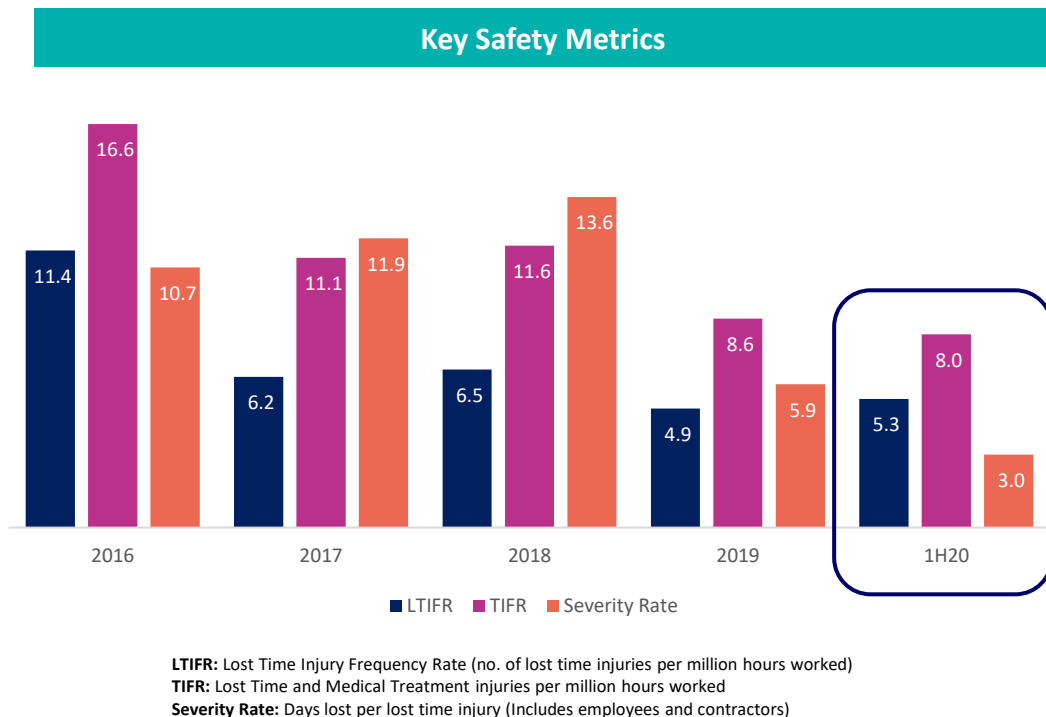


- Our priority has been to ensure all our staff remain safe and healthy – No employees or contractors have contracted COVID
- Measures have been put in place to ensure all manufacturing operations and distribution centres remain in operation – no closures or down-time experienced
  - Management have conducted business continuity planning exercises centered around potential COVID-19 scenarios – contingency plans have been put in place as a result
  - Rigorous cleaning regimens implemented in all work-places
- All office-based staff in Australia have been and still are remote-working since early March (note, NZ office staff returned to work upon removal of lockdown measures)
- Although additional costs incurred to maintain social distancing and lift hygiene requirements, these have been offset by savings in travel costs
- **Asaleo Care has not claimed any Government assistance either in Australia or New Zealand (e.g. Job Keeper)**



# Safety - always a key priority

- Sale and closure of higher-risk manufacturing sites coupled with continued investment in state-of-the-art converting assets built to higher safety standards is creating a safer working environment for our people
- Ongoing investment in our OH&S management systems and a focus on building a culture of individual accountability have been key pillars in the improvement of our safety metrics
- During the period, we successfully set up two new Distribution Centers in Queensland and Victoria with no major incidents
- Our Pacific Islands facility has recently achieved 6 years of no lost time injuries



# Environment, Sustainability and Governance

## *Key initiatives underpinning our focus on social responsibility*



- We launched our first Reconciliation Action Plan to support the national reconciliation movement in Australia for Aboriginal and Torres Strait Islander peoples, communities and organisations
- We advanced our commitment to addressing risks associated with Modern Slavery by conducting independent ethical audits across the supply chain of our key sites
- We strengthened our partnership with Ronald McDonald House Charities for supply of toilet rolls, hand towel and dispensers to Chapter Houses across Australia
- Libra partnered with Share the Dignity to support supply of feminine hygiene products to women and girls in difficult socio-economic circumstances



As a member of Sedex (Supplier Ethical Data Exchange), successfully completed three independent SMETA ethical audits at our manufacturing sites to ensure responsible business practices across Sedex's four pillars of Labour, Health & Safety and Environment & Business Ethics.



# Half 1 Summary

## *Earnings Resilience*



- Financial performance during the half was strong despite challenging operating conditions resulting from COVID-19
- Investment in the brands delivered profitable market share growth
- No interim dividend as we focus on debt reduction and a strong Balance Sheet
- Proactive portfolio management improving focus and diverting investment to higher margin, higher growth categories





# Financials

Half Year Results 2020

**Campbell Richards**

Chief Financial Officer

18 August 2020



# Asaleo Care Financial Performance



- Year on year revenue growth across both Retail (+15.6%) and B2B (+4.6%) through unprecedented demand driven by COVID-19 panic buying and richer mix of product being sold
- Improved Gross Margins through lower pulp costs, benefits from new converting machine installed in 2H19, partly offset with higher insurance costs and unfavourable FX
- SM&A costs higher due to full year impact of investment last year in sales resources to drive topline growth and increased advertising and promotion investment. Also includes a quarter of a year of stranded costs post divestment of Consumer Tissue Australia (completion end of Q1 2019)
- A portion of the A&P spend has been deferred to the second half due to the COVID-19 situation

Asaleo Care \$M	1H20	1H19	Δ %
Revenue from continuing operations	215.0	196.1	9.6%
Cost of sales	(116.5)	(112.4)	3.6%
<b>Gross profit</b>	<b>98.5</b>	<b>83.7</b>	<b>17.7%</b>
Distribution expenses	(20.8)	(18.3)	13.7%
Sales, Marketing & Admin	(28.4)	(25.6)	10.9%
Other income	0.1	0.0	
<b>EBITDA</b>	<b>49.4</b>	<b>39.8</b>	<b>24.1%</b>
Depreciation and amortisation	(12.8)	(11.5)	11.3%
<b>EBIT</b>	<b>36.6</b>	<b>28.3</b>	<b>29.3%</b>
Net finance costs	(4.1)	(7.3)	-43.8%
<b>NPBT</b>	<b>32.5</b>	<b>20.9</b>	<b>55.5%</b>
Income tax expense	(9.8)	(5.8)	69.0%
<b>NPAT from continuing operations</b>	<b>22.8</b>	<b>15.2</b>	<b>50.0%</b>
Non-recurring expenses	(0.1)	(2.6)	-96.2%
Discontinued operations	(3.9)	(5.2)	-25.0%
<b>Statutory NPAT</b>	<b>18.8</b>	<b>7.3</b>	<b>157.5%</b>

# Underlying to Continuing Operations Reconciliation

## Exit of NZ Baby Diaper Business



- Announced withdrawal from the NZ Baby Diaper category on 25<sup>th</sup> June 2020, including closure of the Te Rapa manufacturing facility
- Decision is consistent with the company's focus on exiting businesses that generate poor returns
- Closure expected to complete during 2H20 i.e. sell remaining inventory and manufacturing assets
- Baby Division is now disclosed as a "Discontinued Operation" for both the current year and prior year
- The Baby division generated an EBITDA loss YTD FY20 of \$3.2m and \$0.4m in the prior corresponding period

	Half 1 2020		
A\$m	Underlying inc Baby	Baby Disc Ops	Continuing
Revenue	219.6	4.6	215.0
EBITDA	46.2	(3.2)	49.4

	Half 1 2019		
	Underlying inc Baby	Baby Disc Ops	Continuing
	202.0	5.9	196.1
	39.4	(0.4)	39.8

	Variance A\$m		
	Underlying inc Baby	Baby Disc Ops	Continuing
Revenue	17.6	(1.3)	18.9
EBITDA	6.8	(2.8)	9.6

	Variance %		
	Underlying inc Baby	Baby Disc Ops	Continuing
	9%	-22%	10%
	17%	700%	24%



# Reconciliation of Continuing to Statutory NPAT



## Baby Diaper Trading Loss

- YTD Baby Diaper division loss reclassified to Discontinued Operations which includes additional trade spend to sell through excess inventory

## Baby Diaper Closure Costs

- Costs associated with redundancies, property make good, onerous lease and fixed asset write-off at the Te Rapa manufacturing facility
- Asset sales to be undertaken in H2

## Australian Consumer Tissue Business

- Costs relating to the transition to new distribution facilities post sale of the Australian Consumer Tissue business
- Redundancy costs related to right-sizing the organization post sale of Consumer Tissue Australia

A\$m	1H20
<b>NPAT from continuing operations</b>	<b>22.8</b>
Non-recurring expenses	(0.1)
Baby loss before tax 1H20	(3.6)
Baby closure costs	(6.0)
Australian Consumer Tissue Business	(2.2)
Tax	7.9
<b>Statutory NPAT</b>	<b>18.8</b>

# Pulp - Global supply and demand dynamics keep prices low, depreciation in local currencies partly offsetting cost benefit



## Market

- Pulp prices at low point in cycle driven by over capacity and falling demand
- Prices have stabilized at this lower level
- Hardwood prices have been impacted by a global oversupply which has been further elevated due to postponement of paper mill maintenance programs
- Softwood prices have been stagnant with lower demand being slightly offset with lower capacity due to supply constraints
- Depreciation of local currencies partly offsetting benefit of lower pulp prices

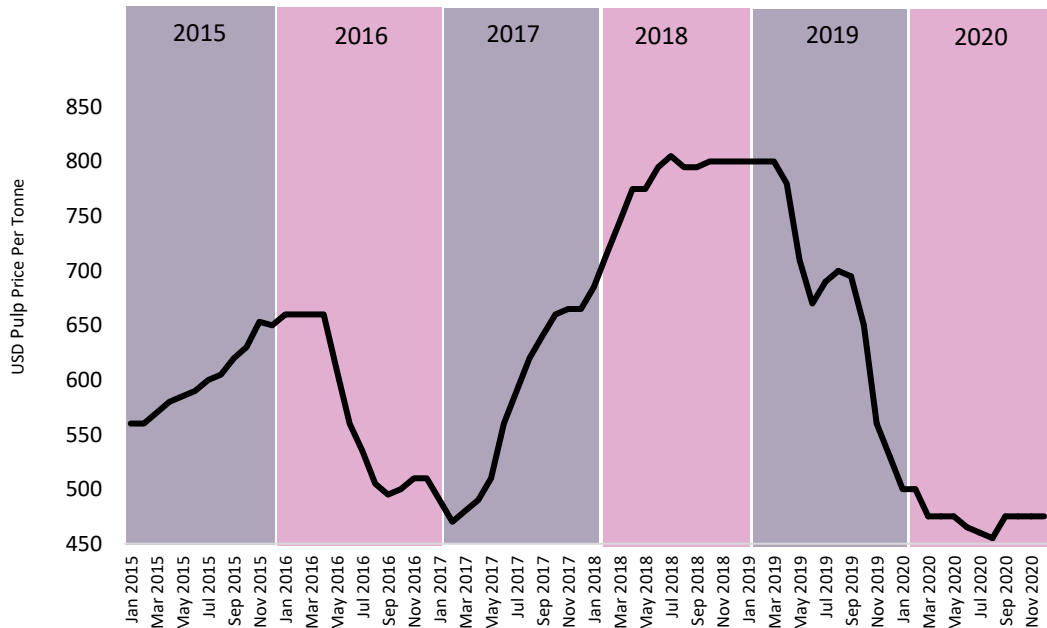
## Asaleo Care

- Continue to source and use high quality FSC certified pulp in all paper products manufactured
- 6-month lag of pulp pricing into COGS still applies

Indicative impact of US\$ pulp price changes – a ~6 month lag from pulp purchase price being set to pricing reflected in Cost of Sales has been taken into consideration

\* Source: Risi, Inc. The price Asaleo Care pays is subject to commercial arrangements that impact price. Asaleo Care primarily sources Softwood from Canada and New Zealand and Hardwood from South America.

## Hardwood - RISI China Delivered Price



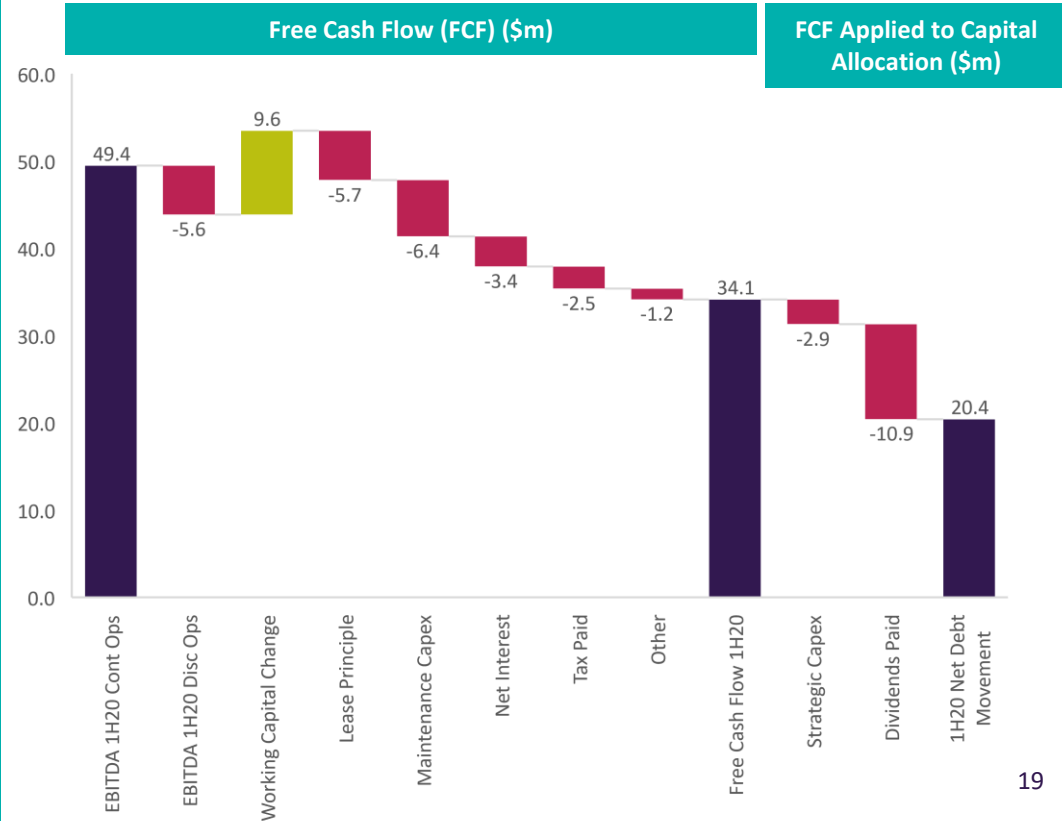
# Strong free cash flow generation

## Free Cash Flow (FCF)

- FCF of \$34.1m
- Strong EBITDA (continuing operations) growth delivered by both Retail and B2B
- Favourable Working Capital movement due to timing of sales and customer payments. Increased inventory offset with increased payables

## Cash Flow Applied to Capital Allocation:

- Two cent unfranked FY19 final dividend paid in April
- Strategic capital investment includes progress payments for NZ converting asset and cost of dispensers for Victorian Government schools feminine care program



# Net Debt

*Continued focus on debt reduction driving a strong Balance Sheet*



## Leverage Ratio

- Leverage ratio at 30 June 2020 is 1.4x, down from 1.95x at 31 December 2019
- Reduced internal leverage ratio target from a range of 1.5x - 2.5x EBITDA to 1.0x - 2.0x EBITDA to ensure a strong balance sheet and improve credit metrics

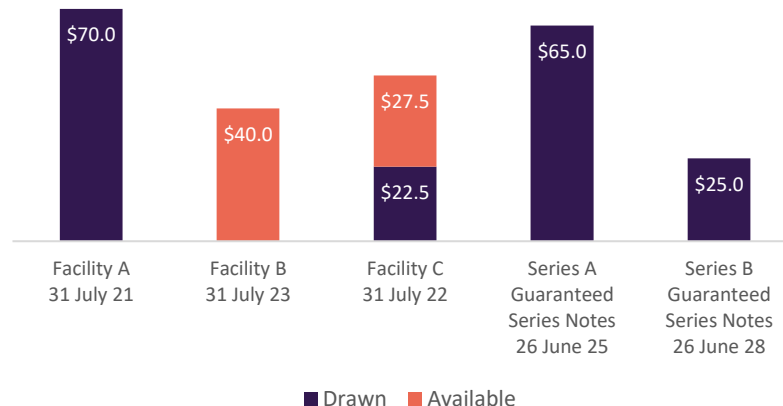
## Net Debt Movement

- Decrease of \$20.4m to \$118.9m at 30 June 2020 (Dec-19: \$139.3m)

## Debt Facilities

- Negotiations currently underway to extend tenor of Facility A

Debt maturity Profile (\$m)



Total Facilities	\$250m
Undrawn Debt	\$67.5m
<b>Drawn Debt</b>	<b>\$182.5m</b>
Cash and Cash Equivalents	\$63.6m
<b>Net Debt</b>	<b>\$118.9m</b>

# Capital Expenditure

## Growth Capital Expenditure

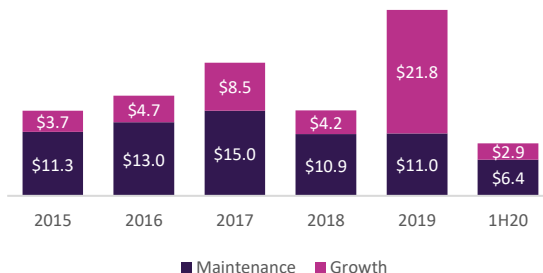
- Progress payments for the new converting equipment in NZ Tissue plant. Final payment of \$1.6m to be paid in H2
- Investment in dispensers for the Victorian Government Schools feminine care program

**Maintenance CAPEX** to remain in-line with historical average

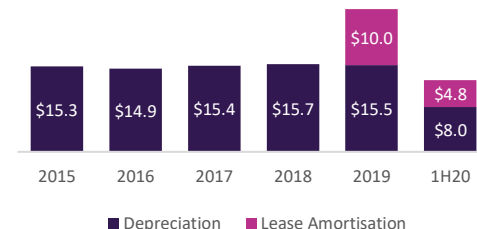
## Depreciation:

- Depreciation for continuing operations will be higher than prior years, due to commencing depreciation of the investment made in the new B2B Tissue converting asset in NZ
- AASB 16: Lease amortisation is included in overall depreciation since 2019

### Continuing Capital Expenditure (\$m)



### Depreciation (\$m)



# Outlook

## Full-Year Profit guidance remains unchanged



<b>Sales Revenue</b>	<ul style="list-style-type: none"><li>• Brand investment will continue to drive underlying sales growth</li><li>• Continued lockdown measures in H2 will negatively impact Professional Hygiene sales, although partly offset by increased demand in hygiene-critical sectors (i.e. healthcare, food processing)</li><li>• Expect panic buying from March and April to continue to unwind in the second half of the year</li></ul>
<b>EBITDA</b>	<ul style="list-style-type: none"><li>• <b>Full year Underlying EBITDA guidance expected to be at the upper end of the \$84m to \$87m range.</b></li><li>• H2 impacted by:<ul style="list-style-type: none"><li>- unwind of H1 panic buying in H2</li><li>- less favourable foreign exchange levels in hedged positions</li><li>- deferral of H1 planned brand investment to H2</li></ul></li></ul>
<b>Capital Management</b>	<ul style="list-style-type: none"><li>• No interim dividend declared - conservative cash management in these uncertain times</li><li>• Strong H2 cashflow will be applied to reduce debt and further strengthen the balance sheet</li><li>• No major Growth Capex activity planned for H2</li></ul>