Health
Wellness
Beauty

ASX Announcement

FY24 Results

29 August 2024

McPherson's Limited (**ASX: MCP**) today announces its results for the financial year ended 30 June 2024. Following the appointment of a new CEO in August 2023, McPherson's announced a refreshed strategy and clear plan to unlock value for shareholders. During the year, McPherson's has taken deliberate steps to simplify and focus the business, including divesting the Multix brand.[1] Against this backdrop, and in a challenging macro-economic environment, the Total Group underlying EBITDA remained in line with FY23.[2,3,4]

Highlights

- Total Group revenue of $197.6 million (FY23: $210.3 million), down 6.0%.
- Core brands revenue broadly in line with prior year at $122.4 million (FY23: $123.3 million).[5]
- Total Group underlying EBITDA of $15.2 million in line with previous year (FY23: $15.0 million).
- Total Group statutory net loss after tax of $16.0 million (FY23: net loss of $5.1 million).
- Basic loss per share of 11.1 cents, down from loss per share of 3.5 cents in FY23.
- Multix brand sold for $19.0 million (prior to completion adjustments) announced 28 June 2024.
- Non-cash impairments of $18.3 million including $11.9 million on Multix brand and goodwill.
- Net cash position[6] of $14.1 million.
- No final dividend determined given statutory loss and retained earnings balance; Company will review capital allocation framework.
- New, experienced executive leadership team appointed during FY24 to deliver on transformation.

McPherson's CEO, Brett Charlton, said: *"This has been a year of solid progress with logical steps taken to re-set the business. In November 2023, we announced we would focus on five core brands, cease private label and exit non-strategic and agency brands, reduce headcount and review Multix. We have completed all these initiatives and divested the Multix brand given its trajectory, outlook and potential to distract from our strategy. Our five core brands are the strongest in our portfolio and continue to outperform the rest of the group."*

"While we have made solid progress, our FY24 result reflects the scale of the transformation underway, including material, non-recurring costs incurred, resulting in an overall statutory loss. At the same time, we have strengthened our balance sheet, which will allow us to de-risk and accelerate our investment in growth and transformation, and we will explore options to potentially return capital to shareholders."

[1] Multix is a trademark owned by International Consolidated Business Group Pty Ltd as trustee for ICBG Unit Trust (ABN 73 804 885 700).
[2] On 28 June 2024, McPherson's announced the sale of its Multix brand and inventory assets (Multix). References to "Total Group" refer to McPherson's FY24 result inclusive of continuing and discontinued operations.
[3] Underlying results exclude material items.
[4] Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure and does not have a standardised meaning prescribed by GAAP. However, the Company believes that, in combination with GAAP measures, it assists in providing investors with a comprehensive understanding of the underlying operational performance of the business. A reconciliation of EBITDA to net profit after tax is shown on slide 16 of the presentation.
[5] Core brands: Manicare, Lady Jayne, Dr LeWinn's, Swisspers and Fusion.
[6] Excluding lease liabilities.

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"We are now building on the deliberate steps we have taken to re-set the business and continuing our transformation plan into FY25. Our immediate priorities are to implement our anticipated new route to market and remove residual costs that remain in the business following the sale of Multix. We have five leading brands in high growth categories with attractive and resilient characteristics. With a new, experienced management team in place, we are focused on the transformation of McPherson's to ensure we return to delivering sustainable profits."

Overview of FY24 Performance

Continuing Operations

FY24 results have been presented on the basis of the Group's Continuing Operations, following the divestment of Multix:

Continuing Operations results	FY24 ($m)	FY23 ($m)	Change ($m)	Change (%)
Revenue	144.6	155.2	(10.5)	(6.8%)
Underlying EBITDA	7.7	12.1	(4.5)	(36.8%)
Material items (before tax)	(12.7)	(3.7)	(9.0)	(246.2%)
EBITDA including material items	(5.0)	8.5	(13.5)	(158.9%)

Revenue from Continuing Operations was $144.6 million, down 6.8% compared to $155.2 million in FY23. Sales of the Company's core brands have outperformed portfolio and other group brands, and the results reflect a shift towards a more favourable, higher margin product mix. Across the Group, and notwithstanding a more challenging trading environment, core brand revenue of $122.4 million was broadly in line with the prior year of $123.3 million in FY23. This performance reflects a relatively stronger second half with revenue growth up 1.8% vs. the prior comparable period, compared to a decline in 1H24 of 2.9% vs. the prior comparable period.

Sales of the Company's portfolio brands declined $2.7 million during the year, mostly driven by supply challenges, which management has been focused on resolving through the appointment of new manufacturers and resolving product dating issues, and a transition of focus from our Oriental Botanical's brand to the Fusion brand. In line with the strategic reset announced in November 2023, the Company began exiting private label and non-strategic brands. Sales from these products declined $6.9 million during the year.

Underlying EBITDA from Continuing Operations was $7.7 million, down from $12.1 million in FY23. This result primarily reflects the unfavourable impact of a weaker AUD/USD, a decline in the contribution after A&P (CAAP) from portfolio brands and the need for stock provisioning on certain SKUs due to shelf-life constraints. The Group's exit from non-strategic and agency brands also contributed to a CAAP decline. This was partially offset by the shift to higher margin core brands. Reduced operating costs primarily reflect an overall reduction in employee costs of $1.1 million related to restructuring activities in 1H24 and an increase in other expenses including new sales software licence fees and increased market research.

EBITDA from Continuing Operations after material items was ($5.0) million, down from $8.5 million in FY23. Material items from Continuing Operations were $12.7 million pre-tax and are discussed in more detail below.

Total Group

Total Group financials, which include Multix, have been provided for comparison purposes with FY23.

Total Group results	FY24 ($m)	FY23 ($m)	Change ($m)	Change (%)
Revenue	197.6	210.3	(12.6)	(6.0%)
Underlying EBITDA	15.2	15.0	0.2	1.1%
Material items (before tax)	(26.7)	(12.0)	(14.7)	(123.2%)
EBITDA including material items	(11.5)	3.1	(14.6)	(473.6%)

Total Group revenue was down 6.0% on the previous year, with revenue from continuing operations down 6.8%, largely reflecting the decision to exit non-strategic agency brand relationships; and revenue from discontinued operations (Multix) down 3.8%, reflecting the continued shift of consumers to private label products in the bags, wraps and foils category.

Total Group underlying EBITDA for the year was steady at $15.2 million, with EBITDA margin increasing +0.5 ppts to 7.7%. This uplift primarily reflects an improved underlying EBITDA result from the Multix business, which benefited from more favourable commodity and freight prices during the year.

Divestment of Multix

On 28 June 2024, McPherson's announced it had completed the sale of the Multix brand and inventory assets to International Consolidated Business Group Pty Ltd for $19 million (prior to completion adjustments). The sale followed a strategic review of the Multix brand, which concluded that the revenue drivers, opportunities and challenges for Multix were different to those for McPherson's core brands, and that there was not sufficient strategic alignment with McPherson's core business to retain Multix. In particular, the review considered:

- Structural changes in the bags, wraps and foils category due to changing consumer preferences and government and regulatory focus on packaging materials;
- The strong representation of private label products within the competitor universe and the challenges of establishing a point of difference; and
- The volatility of McPherson's earnings from Multix as a result of cyclical currency, commodity and freight cost exposures.

McPherson's impaired the Multix brand by $8.3 million in FY23 because of these factors. With an improvement in commodity and freight costs in FY24, the Board determined it was likely to be an opportune time for the divestment of the brand. Due to its relative size and nature, the Multix business is reported as a discontinued operation.[7]

Results	FY24 ($m)	FY23 ($m)	Change ($m)	Change (%)
Revenue	53.0	55.1	(2.1)	(3.8%)
Underlying EBITDA	7.5	2.9	4.6	160.7%
Material items (before tax)	(14.0)	(8.3)	(5.7)	(68.9%)
EBITDA including material items	(6.5)	(5.4)	(1.1)	(19.9%)
Loss on sale after tax	(9.4)	-	(9.4)	100%
Loss from discontinued operations	(4.6)	(3.8)	(0.8)	(21.6%)

Revenue from discontinued operations was $53.0 million, down 3.8% compared to $55.1 million in FY23. In addition to the shift of consumers to private label products, the decline in sales revenue during FY24 reflects the full year impact of range reductions by a key grocery customer during FY23.

Underlying EBITDA of $7.5 million, represents a significant increase on the prior year, and reflects the combined impact of favourable commodity and freight prices (net of unfavourable FX), and reduced operating costs – primarily reduced A&P investment and employee costs.

[7] Multix business refers to the revenue and attributable direct costs associated with the sale of Multix branded and private label products.

Operational transformation update

Following the divestment of Multix, notwithstanding the exit of direct variable costs, the continuing operations retain a large portion of the shared fixed cost base that supports its remaining brands, including warehouse capacity and associated distribution and operating costs.

Addressing this residual cost base, and ensuring the business has the right cost structure to drive efficiency and growth in its core and portfolio brands, is now a key priority for the business. The existing cost infrastructure supporting the Group's brands is significant, underutilised and will increase over time as a result of rent reviews, and outdated and unsupported warehouse systems that will require replacement and modernisation at significant cost.

As a result of these factors, Management has identified a potential new route to market strategy to assist in right-sizing the cost-base and to support business growth.

With the sale of Multix now completed, McPherson's is a pure-play health, wellness and beauty company focused on investing in, and growing, its five core brands: Manicare, Lady Jayne, Dr LeWinn's, Swisspers and Fusion. These core brands operate in attractive categories such as beauty accessories, hair accessories, skincare, cotton and vitamins, minerals and supplements, that show strong and consistent growth and the potential for higher margins.

Business Unit Performance

Australia and New Zealand (ANZ)

Results	FY24 ($m)	FY23 ($m)	Change ($m)	Change (%)
Continuing Operations:				
Revenue	139.1	146.6	(7.5)	(5.1%)
Underlying EBITDA	12.8	17.6	(4.8)	(27.3)
Total ANZ:				
Revenue	192.1	201.6	(9.5)	(4.7%)
Underlying EBITDA	20.3	20.5	(0.2)	(1.0%)

The ANZ Business Unit reported revenue of $192.1 million, down 4.7% on FY23, and underlying EBITDA of $20.3 million, broadly in line with FY23.

When adjusted for discontinued operations, revenue declined 5.1% to $139.1 million and underlying EBITDA was down $4.8 million to $12.8 million. This decline in EBITDA reflects similar drivers to those discussed in relation to the continuing operations of the Group – namely, the impact of a weaker AUD/USD, the performance of the portfolio brands and non-strategic and agency brands, and stock provisioning; partially offset by employee cost savings from restructuring activities during the year.

Revenue from McPherson's five core brands was $117.9 million in FY24, marginally behind FY23 ($118.4) million. Dr LeWinn's, Swisspers and Lady Jayne grew moderately compared with the previous year, while Manicare was impacted by increased competitor activity and Fusion was hampered by supply challenges.

The ANZ business is typically weighted to 1H, reflecting the timing of seasonal promotional events and the lead-in to Christmas. As a result, core brand sales in 2H24 were below 1H24. However, the relative performance of core brands improved in 2H24, with growth of 2.4% on the prior comparable period, compared to a decline of 2.9% in 1H24.

Revenue from supporting portfolio brands decreased $2.3 million or 12.2%, with weaker performances by certain brands particularly impacted by supply challenges and the transition of focus from our Oriental Botanical's brand to the Fusion brand.

Revenue from the EDA[8] brands for the year was below expectations. McPherson's is reviewing its strategy with respect to EDA brand performance, including opportunities to expand deeper into the Pharmacy channel, and different supply chain solutions to expand shelf-life. However, in light of current performance, accounting standards require the inventory prepayment be fully written down during the current period. This recognises that the recoverability of the asset, at this stage, is sufficiently uncertain to warrant amortisation over the remaining 3 years of the initial 5-year term.

In November 2023, McPherson's announced it would cease private label and exit non-strategic agency brands. In FY24, these brands accounted for $4.7 million in revenue, down from $8.8 million in FY23.

International

Results	**FY24 ($m)**	**FY23 ($m)**	**Change ($m)**	**Change (%)**
Continuing Operations:				
Revenue	5.6	9.3	(3.8)	(40.5%)
Underlying EBITDA	(0.6)	(1.3)	0.7	55.9%

The international business achieved revenue of $5.6 million, down 40.5% from $9.3 million in FY23. This decline primarily reflects the decision to exit non-strategic agency and distributor partners in Singapore. Notwithstanding some supply constraints, the performance of Dr LeWinn's in China was marginally ahead of the prior year (+0.5%), and sales of Manicare, although modest, increased off a low base.

Underlying EBITDA of ($0.6) million represents an improvement of 55.9% on FY23. Notwithstanding the decline in sales, this improvement reflects favourable product mix from a higher weighting of core brand sales, coupled with employee and other cost savings.

Material Items

McPherson's has recognised $26.7 million in pre-tax material items, resulting primarily from the re-set of the business in FY24, but also reflecting the impact of the trading performance of certain non-core brands.

Pre-tax material items from continuing operations were $12.7 million and comprise:

- $3.7 million impairment and $1.2 million amortisation of the EDA inventory prepayment.
- $2.8 million impairment of other non-core portfolio brands, including Maseur, Oriental Botanicals and Revitanail. These impairments reflect the trading performance of these brands, and the impact of the Multix brand residual cost base on the profitability of other brands in the portfolio.
- $2.3 million inventory write-down associated with product rationalisation and exit of non-core agency brands.
- $1.7 million in restructuring costs associated with right-sizing the organisation's employee base.
- $1.0 million in other material items including transition costs associated with the leadership refresh and professional fees in relation to the ASIC matter.[9]

Pre-tax material items from discontinued operations were $14.0 million and comprise:

[8] Exclusive Distribution Agreement with Chemist Warehouse
[9] As announced to the ASX on 9 December 2022, ASIC has commenced civil proceedings in the Federal Court of Australia against McPherson's Limited and a former Managing Director in relation to events during the period 30 October 2020 to 1 December 2020. On 21 August 2024, the Company announced the proceedings have been listed for a final hearing on liability in the Federal Court of Australia to occur commencing on 2 June 2025.

- $13.4 million loss on divestment of the Multix business, including $11.9 million non-cash write-down of brand and allocated goodwill; and $1.5 million of related transaction and other costs.
- $0.6 million in restructuring costs associated with Multix divestment.

Net Debt and Cash Flow

Net Cash at 30 June 2024 was $14.1 million, compared to Net Debt of $6.5 million at 30 June 2023. The improvement in the Group's cash position was primarily a result of the receipt of $19.0 million in proceeds (exclusive of GST) from the divestment of the Multix brand and inventory assets. In addition, McPherson's generated strong operating cash flows of $12.3 million (FY23: $6.5 million) due to an overall reduction in working capital reflecting reduced inventory holdings.

Capex during the year was $2.7 million and was primarily to fund transformation activities, including the implementation of new sales software.

Dividends

The balance of retained losses (including the current year loss) means the Company is not in a position to pay a final dividend for FY24. As part of the next stage of its transformation, the Company will conduct a review of its capital allocation framework and dividend policy to better align with McPherson's refreshed strategy.

The total dividend for FY24 will therefore be 2.0 cents per share paid on 22 March 2024.

Near term priorities & outlook

Executing on the transformation while growing McPherson's core brands requires focused commercial execution in a challenging macro-economic environment. At the same time, McPherson's continues to work on removing its residual cost base.

McPherson's remains encouraged by the growth potential in its core brands and early indications of momentum. Year-to-date, there has been some growth in revenue compared to the same period last year for the Group's core brands.

Investor call details

An investor call with be held today, Thursday 29 August 2024 at 11:30 am (AEST). Investors can join using the following links:

- **Webcast:** https://ccmediaframe.com/?id=rQU3e9zh
- **Phone registration:** https://s1.c-conf.com/diamondpass/10041588-h8xszk.html

Investors who join will be required to register.

Authorisation

This ASX announcement has been authorised by the McPherson's Limited Board of Directors.

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About McPherson's Limited

McPherson's Limited is a supplier of some of Australia's well-known essential health, beauty, and wellness products. McPherson's has five core household brands: Manicare, Lady Jayne, Dr LeWinn's, Swisspers and Fusion. McPherson's strategy is to invest in and grow these brands through the pharmacy, grocery and e-commerce channels in the Asia-Pacific. In addition, the Company supplies a supporting portfolio of other popular brands in attractive segments of the market including haircare, vitamins and supplements, fragrance, and nutrition. McPherson's is headquartered in Sydney, has offices in Melbourne, Auckland, Hong Kong and Shanghai, and is listed on the Australian Securities Exchange.

For further information, please visit **www.mcphersons.com.au**