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McPherson's releases outcomes of Operational Review

McPherson's Limited ("McPherson's" or "the Group") today provides the outcomes of its operational review. As outlined to shareholders previously, the intention of the operational review was to identify and prioritise McPherson's key growth drivers, with a view to implementing strategies that deliver both short and long term value to shareholders.

The operational review was structured into two core components; firstly an examination and redefining of the Group's strategic framework, and secondly the construction of a disciplined strategy to achieve the proposed objectives. These components are detailed below.

By executing on these strategic priorities, the Group aims to meet an FY26 target of $300 million in sales (FY21 - $200 to $205 million) and underlying EBIT of $50 million (FY21 - $10 to $13 million), $6 million of which will come from cost optimisation.

McPherson's CEO Grant Peck said: "The operational review confirms that McPherson's is a strong company that is well positioned for growth through its portfolio of market leading brands. The review process has culminated in an actionable strategy that will allow McPherson's to capitalise on the tremendous opportunities presented by the Health, Wellness and Beauty category. The path ahead is clear, and we must now be laser focused on execution, with implementation of many identified initiatives to be commenced immediately and progressed over the next 12 months."

"Our strategy will aim to deliver further value from our core brands through innovation, subcategory ranging and new partnerships, while adopting a mature international expansion approach that leverages new channels to reach new geographies. At the same time, we are actively managing the challenges associated with Dr. LeWinn's in China and aim to restore it as a key growth channel."

"The review has identified further opportunities to minimise costs and maximise efficiencies across the supply chain, with initiatives to be implemented across warehousing, distribution and procurement. We are also expediting the integration of our recently acquired Global Therapeutics business, and management will use this as springboard for future category and product growth,"

Strategic framework

The underlying fundamental strategy of consolidating and growing McPherson's position within the Health, Wellness and Beauty sector remains unchanged, with a focus on:

- **Optimising key brands and core competencies to unlock existing potential**: This strategy will be achieved by streamlining existing operations within the Australian domestic market to focus on core competencies, consolidating the foundation of the Group's health and wellness platform for growth and improving operational efficiency and effectiveness.
- **Expanding core capabilities to unlock further potential**: Leverage existing capabilities beyond the core operations by pursuing international growth opportunities to diversify export market channels and drive expansion.

With the Operational Review now complete and a revitalised strategy in place, financial discipline will also be an important focus for the business. We remain a low geared business, with an attractive

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dividend policy and the availability of franking credits, which provides flexibility for further capital deployment and initiatives.

Operational Review outcomes

McPherson's four key Operational Review outcomes are summarised below.

A. Focus on core owned brands and key domestic channels

The Group has identified that there is significant growth potential in the existing core domestic brand portfolio, which can be unlocked through capitalising on current resources, positioning and relationships. The following key growth drivers for the domestic brands were identified, as focal points of the Group's strategy:

1. Capitalising on inherent market opportunity: Reactivating Dr. LeWinn's and A'kin for market share gains, incremental subcategory ranging and strategic partnerships with suppliers and customers.

2. Innovation and renovation: Amplifying the Group's focus on sustainability across product portfolios, skincare sub-range expansion and heightened emphasis on product development, and rejuvenation within the essential beauty range.

3. Customer and channel expansion: Engaging with potential new channels to broaden distribution and product accessibility in addition to increased investment in digital and social platforms to enhance consumer engagement throughout the consumer purchase lifecycle. McPherson's has set the target of increasing current ANZ distribution points (individual stock keeping unit in an individual retail location) from 1.1 million to 1.4 million by FY26.

4. Category expansion: Expand product offerings to diversify target market end-users, including the sale of Happy Flora products into the health food channel.

B. Health & wellness – a new growth platform

Global Therapeutics provides the Group with a springboard for future category and product growth. Its core proposition of 'ancient wisdom and modern medicine', which resonates well with consumers, provides significant ranging upside in the Australian and New Zealand Pharmacy channels, along with growth opportunity through new product development.

C. Expand international footprint

The operational review has further identified key export markets beyond China and the opportunity to de-risk the current lack of diversification of export channels. As such, McPherson's intends to broaden its export markets beyond Asia, with early planning already underway including a fulsome market testing strategy and engagement with select distributors predominantly across the online channel in the United States and Europe. Furthermore, renewed ranging and support for Dr. LeWinn's will increase the breadth of distribution beyond current levels, while not overlooking the work already underway with our channel partner Access Brand Management to address recent challenges selling into China.

Furthermore, New Zealand remains a key priority and the Group has committed to refresh and relaunch its Health and Wellness products in this market, with a specific focus on Fusion Healthcare.

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In addition to international expansion opportunities, McPherson's will continue to adopt a disciplined approach to compatible business acquisitions of scale in accordance with the Group's strategic priority to become a leader in the Health, Wellness and Beauty space.

D. Cost base recalibration

The operational review also identified efficiencies across the business to reset the Group's cost base and enhance profitability. These include opportunities across the following functions:

- Warehousing
- Distribution
- Procurement and product cost formulation
- Selling, general and administrative expenses

These initiatives will deliver significant value and enhance McPherson's key capabilities, with the target of cost optimisation progressively contributing an additional $6 million to annual EBIT by FY23. The one-off, non-recurring cost associated with achieving these savings is estimated to be $1.5 million.

In summary, McPherson's management team has defined a broader set of growth opportunities. The team intends to capitalise on its current capabilities in the Health, Wellness and Beauty category and its investment across sales and marketing, to establish a revitalised focus and enhanced growth trajectory for the business.

Investor Briefing Webcast

Shareholders are reminded that McPherson's will hold an Investor Briefing via Webcast from 9.30am until 12 noon today, 19 May 2021, via the URL below:

URL:https://webcast.openbriefing.com/7442/

Participants will need to register to access the webcast, which will be activated 15 minutes prior to the start of the presentation.

The Investor Briefing, which will include further detail on the outcomes of Operational Review, will be led by Grant Peck, Managing Director / CEO, with presentations from a number of the McPherson's executive team.

The Investor Briefing material is being uploaded separately to the ASX this morning. An archive of the event will also be placed on the Investor Centre | Announcements page of McPherson's corporate website after the event.

Authorisation

This ASX announcement and media release and the separate Investor Briefing Presentation have been authorised by the McPherson's Limited Board of Directors.

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About McPherson's Limited

McPherson's, established in 1860, is a leading supplier of Health, Wellness and Beauty products in Australasia and increasingly China, with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care and personal care items such as facial wipes, cotton pads and foot comfort products, as well as a range of kitchen essentials such as baking paper, cling wrap and aluminium foil.

McPherson's manages some significant brands for agency partners and via joint venture arrangements however, the majority of revenue is derived from the company's diversified portfolio of owned market-leading brands, including Dr. LeWinn's, A'kin, Manicare, Lady Jayne, Swisspers, Multix, Fusion Health, Oriental Botanicals, Moosehead and Maseur.

For further information on McPherson's business and its strategy and to view our most recent corporation video please refer to the company's website http://www.mcphersons.com.au

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