# 1H18 Results Presentation

**Sid Takla – Interim Chief Executive Officer**
**Lyndal York – Chief Financial Officer**

21 August 2018

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# Executive Summary

## Taking actions for long term success

- We are a successful consumer branded business, with an enviable portfolio of market leading brands
- We are taking strong decisions and actions to ensure long term success and require investment now to underpin this future growth.
- Our focus will return to Consumers and Customers
- Further ~$5.0m removed from the cost base in the last 6 months
- Assisted by Luminis Partners, the strategic review is moving rapidly and we expect to announce the outcomes in Q4

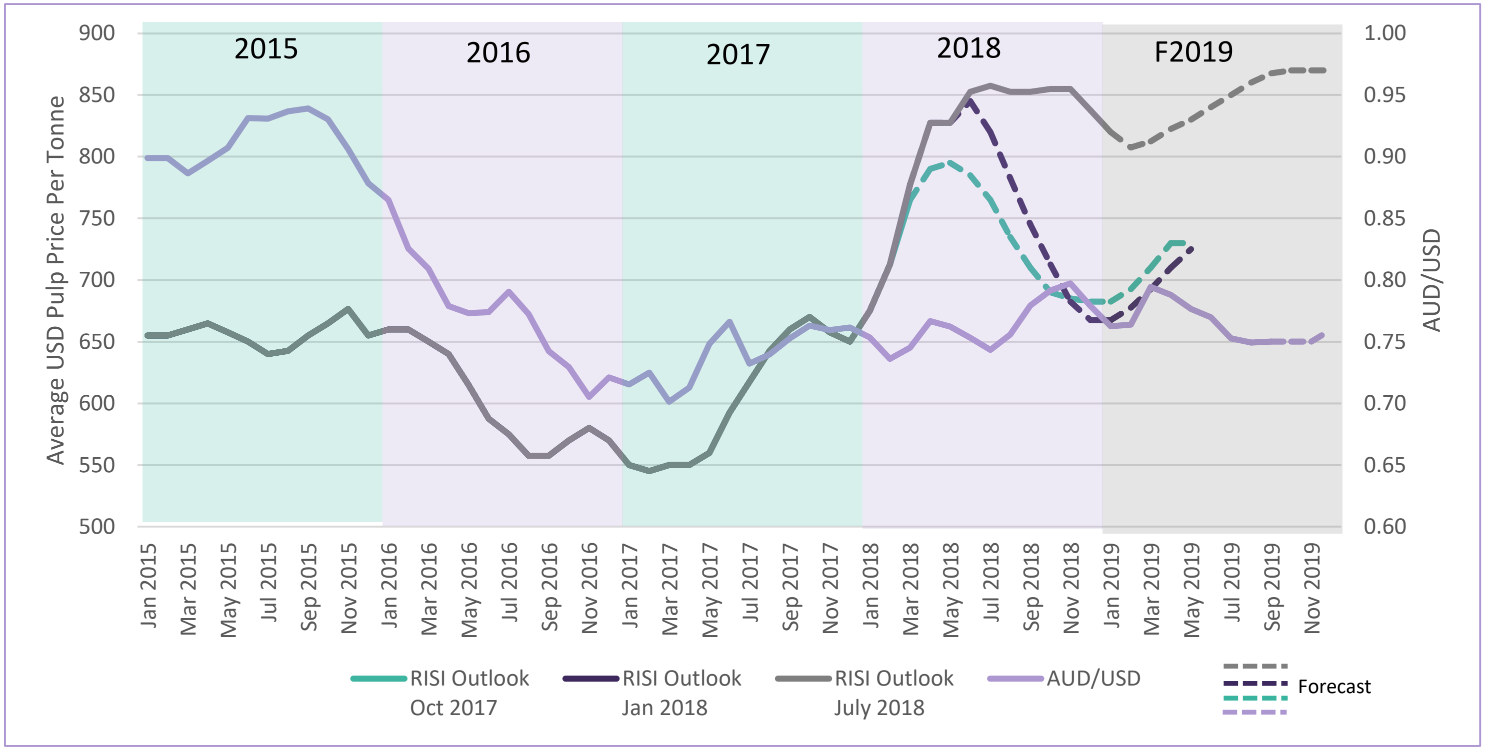
# Executive Summary

## Key drivers of 1st half performance

- Significantly higher pulp and energy costs
- Protracted price negotiations led to cancelled or downgraded promotional activity heavily impacting volumes
- We achieved price increases. We have not seen price increases from our competitors. Our strategy is to increase trade spend to protect share.
- Major investment in Sorbent quality upgrade and increased brand activity

# Pulp

## Increasing pulp price in 2018 driving ~$24M of cost headwinds




35% increase in average pulp FY18 compared to FY17. Total impact of ~A$24M

RISI forecast in both Oct 2017 and Jan 2018 had pulp price decreasing.

Correlation between pulp and AUD/USD movement ceased towards the end of 2017.

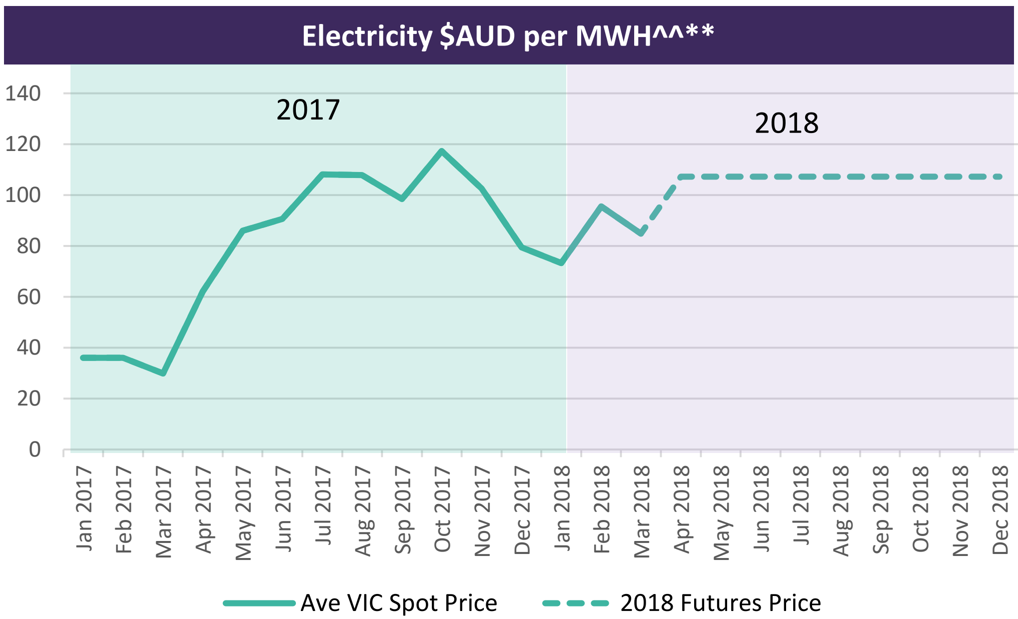
RISI pulp forecast shows little easing of prices into 2019

**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. Pricing to June 18 is actual. 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 & South East Asia.

**Indicative AUD/USD impact** – a 15 month lag from purchase of foreign exchange through hedges to realization into Cost of Sales has been taken into consideration.
* Source: Actuals - RBA.gov.au. Forecast - Bloomberg bank consensus.

# Electricity

## Year on Year impact of Energy ~$5.2m




- 2018 futures price on average 16% higher than 2017

- 2018 total energy impact (Gas and Electricity) ~$5.2m
- Asaleo Care has contracted electricity prices until 2020.

**^^ Indicative impact of electricity prices –** price lag of ~three months from electricity usage to pricing reflected in Cost of Sales.
** Source: Australian Energy Market Operator (AEMO) Victoria Electricity spot price. Futures price from ASX.com.au. The price Asaleo Care pays is subject to commercial arrangements that impact price.

# Financial Summary

## Challenging start to the year with significantly higher input costs

- Underlying 1H18^ EBITDA decline of 24% to $46.3m, Tissue EBITDA $20.0m (-38.8%), Personal Care EBITDA $26.3m (-6.7%)
- Underlying^ NPAT decline of 36.9% to $17.8m from $28.2m (1H17), Statutory Net Loss After Tax (NLAT) of $101.5m (1H17: profit of $27.7m)
- Tissue was impacted by significantly higher pulp and electricity costs and lower retail sales volumes due to customers reducing and cancelling promotions during price negotiations. New and improved Sorbent product in market late in the half
- Personal Care reduced earnings due to Feminine Care market share lost in FY17 being regained at a slower rate than expected (share has now stabilized). Baby Care quality issues in 2H17 (now resolved) still impacting market share in 1H18
- Professional Hygiene and Incontinence Care up on last year
- Non-cash inventory write-down and impairment charges of $148.5m were booked during the half
- No interim dividend will be paid
- Refinanced long term debt facilities, with increased tenor

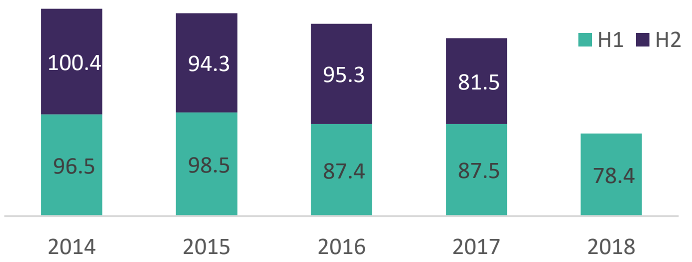
**^ Underlying 1H18 Result:** Has been adjusted for ($157.4m pre-tax) or ($119.3m after-tax) non-recurring income and expenditure associated with restructuring costs, capex upgrade, strategic review costs and asset write-downs and impairments.

## Segment Performance: Personal Care

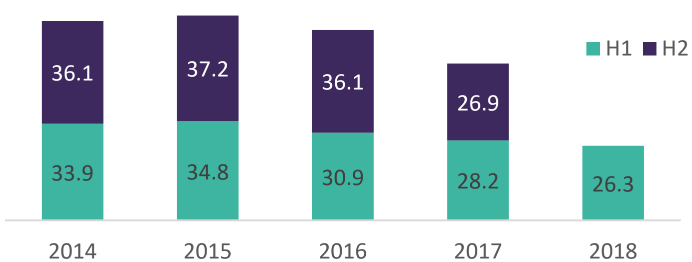
### Feminine Care market share now stabilized. Baby Care still challenging. Incontinence Care continues to grow

| $m | 1H18 | 1H17 | 1H18 vs 1H17 |
|---|---|---|---|
| **Revenue** | 78.4 | 87.5 | -10.4% |
| **Underlying EBITDA** | 26.3 | 28.2 | -6.7% |
| **EBITDA Margin %** | 33.5% | 32.2% | |

**Personal Care – NSV $AUDM**




**Personal Care – EBITDA $AUDM**




**Overall**

- 1H18 revenue decline 10.4% compared to 1H17 with reduction in Feminine and Baby partially offset by Incontinence Care
- Favourable FX being offset with rent on Springvale site (sold in June 2017)
- Favourable A&P (~$2.4m) with advertising on Roll.Press.Go. innovation last year not repeated this year

**Feminine Care**

- The Feminine market share decline experienced in 2H17 has stabilized in 1H18 as we moved off Every Day Pricing (EDP) in 4Q17
- Promotional pricing recommenced in November 2017. Modest uplifts seen on both value and volume share
- Increased trade spend to support market share as a result of continued heavy discounting by competitors

**Baby Care**

- Sales decline in Baby Care due to loss of private label contract, exiting of Australia business and a new entrant into the NZ market achieving solid share growth
- Product quality issues from 2H17 have been addressed and new and improved product now fully in market. Ongoing activity in place to rebuild brand confidence

**Incontinence Care**

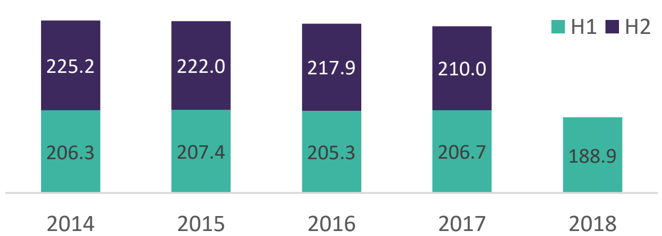
- Incontinence Care performing strongly with Healthcare revenue growth of 5% in 1H18, driven by contract wins. The retail division achieved growth of 8% with new products being ranged in major grocery channels

# Segment Performance: Tissue

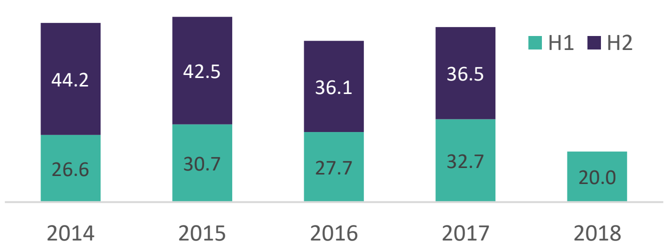
## Significant cost imposts partly offset through price and cost outs. Re-investment in Sorbent brand. Growth in Professional Hygiene

| $m | 1H18 | 1H17 | 1H18 vs 1H17 |
|---|---|---|---|
| **Revenue** | 188.9 | 206.7 | -8.6% |
| **Underlying EBITDA** | 20.0 | 32.7 | -38.8% |
| **EBITDA Margin %** | 10.6% | 15.8% | |

**Tissue – NSV $AUDM**




**Tissue– EBITDA $AUDM**




**Overall**

- Revenue decline of 8.6%, with Professional Hygiene (B2B) up 1.4%, Fiji up 5.7% and Consumer Tissue down 16.8%
- Significant cost imposts with pulp price of ~$9.7m and energy of ~$4.1m. Favourable FX of ~$4.3M helped offset
- Price increase achieved in many cases. No price increases seen from competitors. Trade spend was increased to support market share
- New and improved Sorbent product available in market
- Tight control of SM&A spend

**Consumer Tissue**

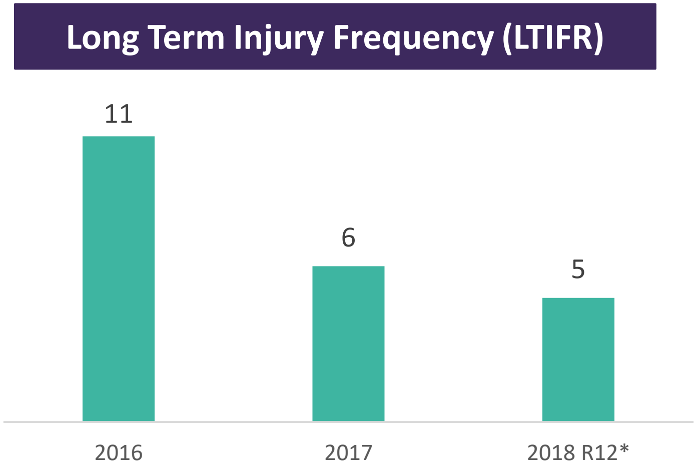
- Sales decline across Australia and New Zealand due to loss of private label contract and reduced/cancelled promotional activity during protracted price negotiations
- Increased trade spend to support market share as a result of continued heavy discounting by competitors
- Re-investing in Sorbent product quality with distribution of new product having commenced in Australia during 2Q18. Re-launch campaign to occur in 2H18
- Significant private label contract was tendered for and won. Sales to commence in 4Q18

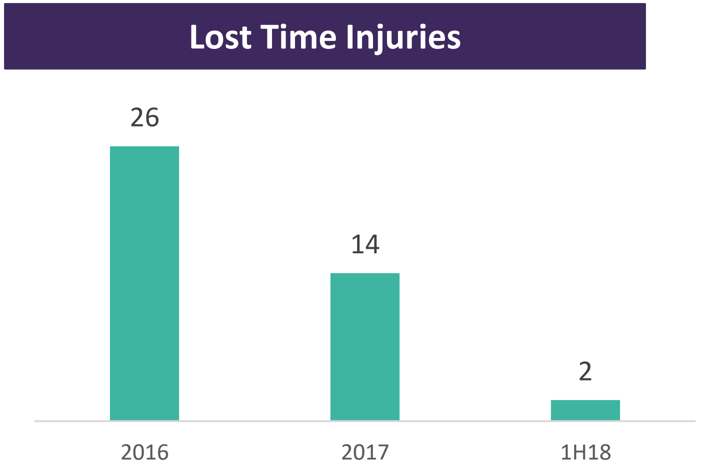
**Professional Hygiene**

- Revenue growth in Australia of 1% (branded 2.5%) and in New Zealand 3%
- New contract wins were slightly offset by loss of a private label contract. Price increases achieved to help offset cost imposts.

# Safety

## Proactive risk management leading to improved safety performance




- Capital improvements implemented to address safety hazards e.g. Box Hill Crane replacements
- Targeted injury prevention activities resulted in manual handling and plant safety improvements
- High risk management and controls progressed across all sites

- ***LTIFR:*** *Lost Time Injury Frequency Rate (no. of lost time injuries per million hours worked)*
- ****R12**: Last 12 months*

# FY18 Outlook

## Revised FY18 guidance maintained

| | |
|---|---|
| **Underlying* EBITDA** | $80m to $85m as advised on 17th July 2018. |
| **Capital Management** | No interim dividend for 1H18. |

*Underlying Assumptions:*
- RISI forecast shows no easing in pulp pricing as previously projected
- Electricity prices contracted through to end 2019
- Continued investment in Trade Spend to support market share

* Statutory result will be lower due to expected non-recurring expenditure associated with restructuring costs, capex upgrade, strategic review costs and asset write down and impairments.

# Lyndal York – Chief Financial Officer

21 August 2018

# Underlying Results

## Decline in retail categories partly offset by growth in B2B categories

| $Am | Underlying 1H18 | Underlying 1H17 | % Change |
|---|---|---|---|
| Revenue | 267.2 | 294.2 | -9.2% |
| Cost of Sales | (168.4) | (178.3) | -5.6% |
| **Gross profit** | **98.8** | **116.0** | **-14.8%** |
| Distribution Expenses | (33.9) | (34.2) | -0.9% |
| Sales, Marketing & Admin Expenses | (29.8) | (33.0) | -9.7% |
| Other Income/Expenses | (3.3) | (2.7) | 22.2% |
| **EBITDA** | **46.3** | **60.9** | **-24.0%** |
| Depreciation and Amortisation | (14.4) | (14.8) | -2.7% |
| **EBIT** | **31.9** | **46.1** | **-30.8%** |
| Net Finance Costs | (6.5) | (5.9) | 10.2% |
| **NPBT** | **25.3** | **40.2** | **-37.1%** |
| Income Tax Expense | (7.5) | (12.0) | -37.5% |
| **Underlying NPAT** | **17.8** | **28.2** | **-36.9%** |
| Non-recurring expenses | (157.4) | (1.3) | N/A |
| Income tax benefit on non-recurring items | 38.1 | 0.8 | N/A |
| **Statutory Net (Loss)/Profit After Tax** | **(101.5)** | **27.7** | N/A |

**Revenue:**

- Driven by reduction in Consumer Tissue, Feminine and Baby, partly offset with favourable business-to-business growth.

**Cost of Sales & Gross Profit:**

- The percentage of cost of sales increased from 60.6% to 63.0%. The increase is attributable to unfavourable pulp (~$9.7m), unfavourable energy (~$4.1m) slightly offset with favourable FX (~$5.3m) on raw materials/finished goods.

**Expenses:**

- **Distribution Expenses:** Lower due to reduced volumes mainly in Consumer Tissue, offset by increased freight rates
- **Sales, Marketing and Admin Expenses:** Reduced spend on advertising and promotion in Personal Care with no major market launches compared to last year. Tight control on discretionary spend also contributed to the reduction
- **Net Finance Costs:** Increased on higher average gross debt (1H18: $351m vs 1H17: $335m) with effective interest rate in 1H18 of 3.6% compared with 1H17 of 3.5%.

**Non-recurring expenses:**

- Includes non-recurring expenditure associated with capex upgrade, restructure costs, impairment and write down of assets and strategic review costs.

# Underlying to Statutory Results Reconciliation

| $m | 1H18 |
|---|---|
| **Underlying Net Profit After Tax** | **17.8** |
| Restructuring | (5.4) |
| Capex upgrade for B2B | (3.3) |
| Strategic costs | (0.2) |
| Impairment and asset write down | (148.5) |
| Tax benefit | 38.1 |
| **Statutory Net Loss After Tax** | **(101.5)** |

**Non-recurring costs:**

- **Restructuring:** Operational headcount reductions and corporate restructuring
- **Capex upgrade for B2B:** Incudes accelerated depreciation, restructuring costs and provision for spares inventory
- **Strategic costs:** Consultant costs associated with the strategic review
- **Impairment and asset write down:** Inventory write down and impairment related to Tissue Australia and Personal Care New Zealand. Refer to slide 15 for further details

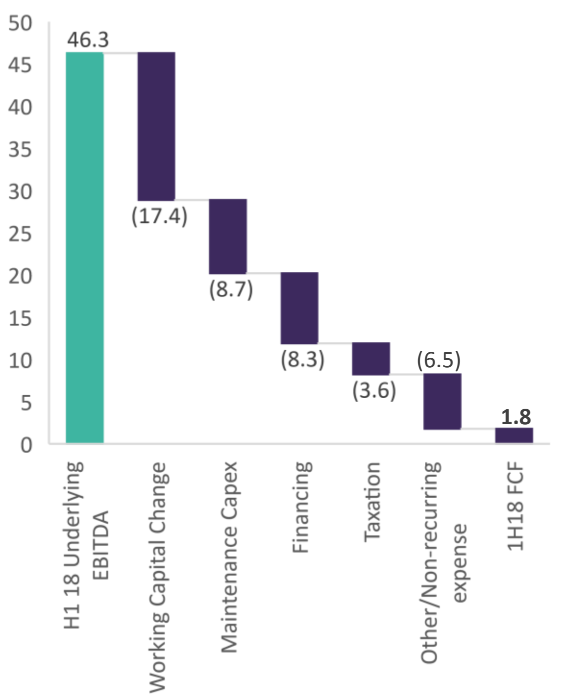
# Impairment of goodwill and other net assets

- Impairment of goodwill and other net assets of $148.5m in 1H18:
  - $55.2m charge to goodwill and other intangible assets
  - $80.4m charge to property plant and equipment
  - $4.4m charge to inventory for spare parts
  - $8.5m charge to inventory
- Impairment reflects the change in assumptions concerning future cash flows in Tissue Australia and Personal Care New Zealand as a result of:
  - Sustained increase in input costs, particularly pulp
  - Investment required to support market share
  - Continued decline in market share of Baby Care business
  - The ongoing intensity of competition in the retail business

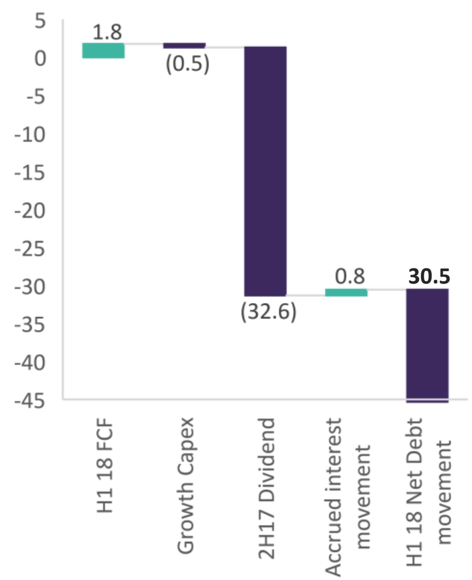
# Free Cash Flow & Net Debt Movement

## Focus will be on reducing debt levels in 2H18

**Free Cash Flow (FCF) ($m)**




**FCF Applied ($m)**




**Free Cash Flow**

- Free cash flow of $1.8m
- Inventory increase due to higher input costs and increased holding of imported finished goods and raw materials
- Additional accounts receivable securitisation facility was executed resulting in a reduction in receivables
- Payment of interest in June as part of refinancing

**Free Cash Flow Applied to:**

- 2H17 dividend paid in 1H18
- Growth capex is negligible

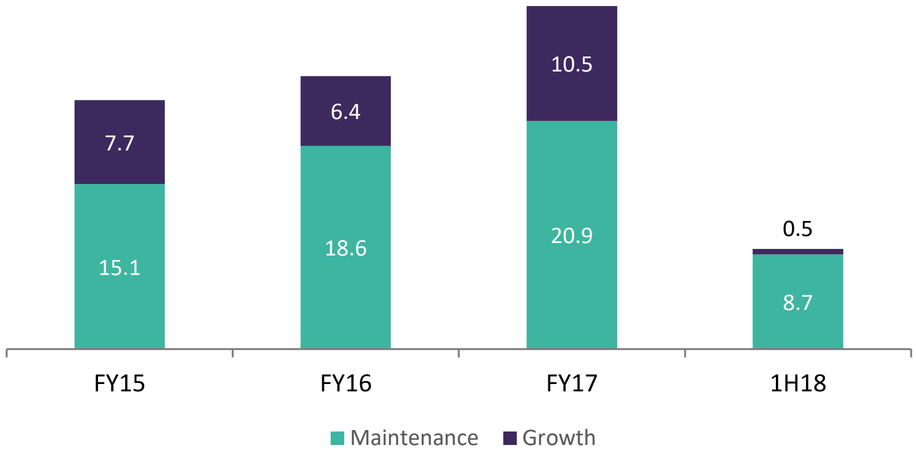
**Net Debt Movement:**

- Increase of $30.5m to $309.7m at 30 June-18 (Dec-17: $279.2m)
- Leverage ratio 2.82x

# Capex and Depreciation

## Disciplined approach to capital expenditure in light of strategic review

**Capital Expenditure ($m)**




**Depreciation ($m)***


**Maintenance Capex:**
- 1H18 Maintenance Capex includes installation of cranes at the Box Hill site, replacement of ageing factory roof at Kawerau in New Zealand, upgrades to our quality control systems and investment in Professional Hygiene proprietary dispensers

**Growth Capex:**
- 1H18 Growth Capex of $0.5M was for a deposit on a machine for improved Incontinence product

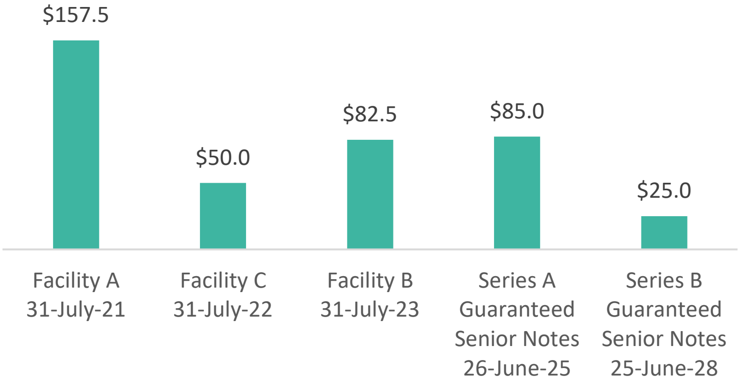
**Depreciation:**
- Depreciation will reduce in 2H18 as a result of the impairment and asset write downs

** Depreciation reflects underlying levels.*

## Debt Management

### Debt refinanced during the period with extended tenor and competitive pricing

**Debt Maturity Profile ($m)**




| | As at 30 June 2018 |
|---|---|
| Total Facilities | $400m |
| Drawn Debt | $348.5m |
| Available Facility | $51.5m |
| Cash & Cash Equivalents | $38.8m |
| Net Debt | $309.7m* |

^ Leverage = Net Debt / Underlying EBITDA

* After adjusting for accrued interest of $0.1m on drawn debt

**Leverage^**

- Leverage ratio at 30 June 2018 is 2.82x

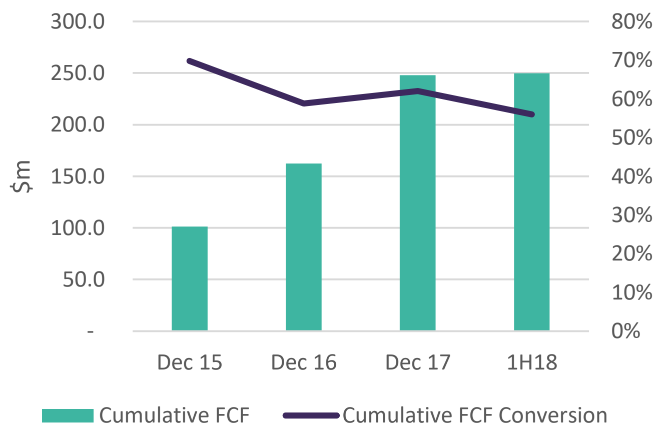
**Refinance Complete**

- Debt facilities extended and refinanced in June 2018
- Total debt facilities now $400m. Average maturity of debt is 4.9 years

**Strong history of cash generation**

- Since listing $300m returned to shareholders
- Average free cash flow conversion of 60%

**Cumulative Free Cash Realisation**



# Shareholder Return Calculations

## Weaker returns reflecting trading performance

| | 1H18 Underlying | 1H17 Underlying | Change |
|---|---|---|---|
| **EPS** | 3.3cps | 5.2cps | -36.5% |

| | 1H18 Underlying | 1H17 Underlying | Change* |
|---|---|---|---|
| **ROIC** | 12.0% | 13.0% | -1.0pp |
| **ROE** | 29.4% | 22.3% | +7.1pp |

**Methodology^:**

- Earnings Per Share **(EPS)**
  - NPAT / Weighted average shares on issue
  - 1H18: $17.8m / 543,122,491 = 3.3 cps
  - 1H17: $28.2m / 545,115,268 = 5.2 cps
- Return on Invested Capital **(ROIC)**
  - Annualised NoPAT / Debt + Equity
  - 1H18: $57.3m / ($309.7m + $166.3m) = 12.0%
  - 1H17: $73.6m / ($272.2m + $295.2m) = 13.0%
- Return on Equity **(ROE)**
  - Annualised NPAT / Equity
  - 1H18: $49.0m / $166.3m = 29.4%
  - 1H17: $65.7m / $295.2m = 22.3%

* ‘pp’ means percentage points
^ Calculated on an underlying basis

# Summary

## Investing for the future in a challenging environment

- We are resetting the business for long term success
- We are making major investments in our brands
- We are tackling significantly higher input costs that impact our short term profitability
- Our in-depth strategic review will set the business on the path to sustainable profitable growth.

# Appendix – Business Overview

## Leading personal care and hygiene company that manufactures, markets, distributes and sells Personal Care and Tissue products under market leading brands

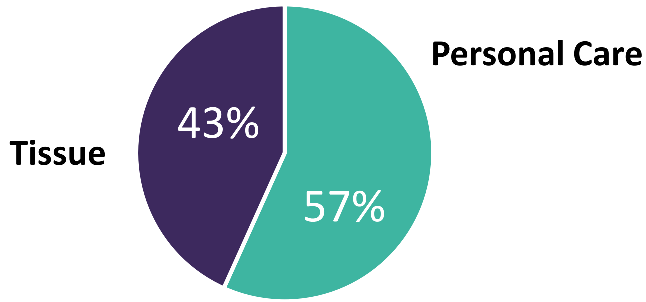
**Incontinence Care (Retail & B2B)**

*

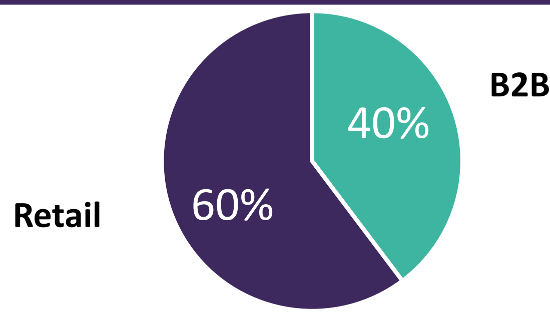
**Feminine Care**

**Baby Care**

**1H18 EBITDA split**




**1H18 Sales – Retail v B2B**




**Manufacturing Plants**

| | |
|---|---|
| Personal Care | Springvale (Feminine Care, Incontinence Care), Te Rapa (Baby Care) |
| Tissue | Box Hill, Kawerau, Fiji |

**Consumer Tissue**

**Professional Hygiene (B2B)**

*

* Licensed from Essity