



Pental Limited

Chairman's Address

Annual General Meeting

Thursday 17 November 2016

Royce Hotel

379 St Kilda Rd, Melbourne

For personal use only

Ladies and gentleman, it gives me great pleasure to welcome you to the Pental Limited AGM. My name is Peter Robinson and I am the Chairman of our Company.

During the 2016 financial year we made significant progress on a number of key strategic fronts, which will see Pental entering an exciting phase of growth by being able to execute its expansion plans.

I will go into those plans in more detail, but first I will provide an overview of our latest financial results.

In the year to 30 June 2016, Pental achieved a net profit after tax of \$5.6 million (up 10.6% on last year).

Underlying Earnings Before Interest Tax Depreciation and Amortisation was \$10.8 million (up 5.3% on last year, excluding the prior year's one-off significant items).

Although this was a solid result, the company's financial performance was impacted by lower sales in Australia due to the inconsistent performance of our manufacturing plant, in particular the bleach liquid lines, and lost sales opportunities from the short supply of stock.

New Zealand gross sales grew 2.1% (or 0.7% expressed in Australian dollars) as a result of market share growth and new product development, despite our competitors continuing to price aggressively.

Improved profitability and strong cash flow management has resulted in our cash reserves remaining healthy, with \$12.3 million in cash and no debt.

As a result of all these factors, the total dividend for the financial year was increased by 14.3% on last year, representing a payout ratio of 71%.

Over the past few years Pental has made significant progress in creating a solid manufacturing platform and improving critical operational aspects of the business.

The grocery sector remains extremely competitive, and the major retailers are under constant pressure to outperform each other. These pressures fall back on suppliers, in many instances. As a result, our strategic initiative of driving year-on-year productivity savings is essential.

Continuous improvement disciplines throughout the business are the cornerstone of combating these pressures, and during FY16 our Profit Delivery Projects produced non-commodity savings of \$1.1 million and we expect similar savings to be made in FY17.

During FY16 we undertook a substantial amount of pivotal capital works and, pleasingly, these projects have been completed. However, long lead times for new equipment to arrive, prolonged teething issues and inconsistent quality of bottle supplies did impact the normally high customer service levels previously delivered by Pental. As a result, this led to lost sales in the Australian market. Our fill rates to customers this year-to-date are back on track, and the FY16 new plant and equipment is increasingly yielding significant efficiency benefits.

- Installation of the one step soap saponification (SWING) plant has reduced labour and is delivering improved tallow yields well above expectations. Furthermore, the plant has supported the refresh and roll-out of the new Country Life bar soap range with a new and improved soap formulation. It also has given us the flexibility to develop natural new soap variants from different oils in the future.

- Throughputs on our new bleach liquid line A filler and the full automation of the bathroom liquid line B, whilst the most challenging during commissioning, is progressively delivering higher volumes with lower labour. Likewise, the renewed and upskilled engineering team is reducing downtime through improved responsiveness and enhanced preventative maintenance routines.
- The consolidation of the Australian finished goods warehousing on one enlarged site at Shepparton, supported by the latest picking technology and warehouse management system, has allowed us to eliminate our Australian third party picking and distribution costs on high-volume lines - providing a significant cost savings. This enlarged warehouse site has increased our finished goods holding capacity by 30%, which will also support some of our future growth needs.

We expect that further new initiatives, supported by enhanced efficiencies from the capital investments made in prior years, will continue to yield substantial benefits in FY17 and help offset normal cost pressures.

Our key focus is to continue to build the innovation pipeline around our Power brands – White King and Country Life in Australia, and Janola and Sunlight in New Zealand, whilst our other brands will continue to be used tactically in the grocery channel as well as in the pharmacy, export and commercial industrial channels.

During FY16 we developed and established a new export channel into China, offering Australian-made iconic power-branded products directly to retail customers in China. Whilst it was pleasing to recognise initial start-up sales of \$700,000 in FY16, we have

taken a disciplined approach at expanding our export footprint to ensure we build a long-term sustainable business. For example:

- Relationships have been directly established with major bricks & mortar, and online retailers, supported by different merchandisers and distributors in each region, rather than the customer relationship being controlled only by third party distributors;
- Warehouse and distribution through the government-controlled Free Trade Zone in Shanghai; and
- While we have made some initial investments in soap cutting, overwrapping and labelling equipment to meet the start-up demand for our bar soaps into China, the Board will be shortly considering the next phase of the soap plant modernisation project to support the new export demand. The automation of the soap packaging lines is expected to substantially reduce operational costs and significantly increase throughputs.

Following the initial pipe fill into China, ranging with retailers of our brands has been steadily expanding. Although the lead time of these sales is taking longer than expected, we are confident of achieving \$4m in sales in FY17 (predominately in the second half) and that the Asian export channel will continue to grow over time.

We are also expanding our White King, Softly, Huggie and Sunlight brands into the commercial/industrial sector. In September we commissioned the bulk liquids plant on time and have commenced production of a range of commercially-sized products. In-house production of existing bulk sales (typically in 5 litre containers) has provided us with immediate cost savings, and the sales team is currently creating new growth opportunities in both the retail and non-retail channels.

Finally, as detailed in the Annual General Meeting papers (under Resolution 3) we have considered our longer-term position at the Shepparton site and today we will be seeking your approval to repurchase the Shepparton property. Repurchase of the site will remove \$0.675 million (indexed at CPI) of lease costs per annum from 1 July 2017 and this will be funded via Pental's existing cash reserves. A vote on the matter will follow shortly.

Gross sales in the first quarter (July to Sept 16) have been above last year with the launch of new products to the market and improved customer fill rates. However, the cost of doing business with Australian and New Zealand retailers, coupled the foreign exchange impact from NZ operations continues to be challenging. Despite this, we remain confident of growing in these channels and of driving our manufacturing costs down to mitigate margin pressures. We are progressively building our new commercial and Asian export channels, although slower than expected, but remain positive in the profitable growth these channels will ultimately deliver.

I would like to thank the shareholders for their ongoing loyalty and commitment as Pental drives its growth strategies to improve shareholder returns.

Peter Robinson

Chairman