



22 February 2016

## ASX ANNOUNCEMENT

### Pental Half-Year Result

Underlying Net Profit After Tax Higher; Expansion and plant upgrades on target

#### Performance Highlights

Underlying Earnings Before Interest and Tax (EBIT) up 5.7% to \$3.08 million;

Net Profit After Tax up 12.0% to \$1.985 million;

Gross Sales down 0.7% to \$54.046 million;

Increase in interim dividend to 1.00 cents per share fully franked;

Increase in net cash position to \$11.202 million.

Company completes first exports to Asia.

#### OVERVIEW

Pental Limited today announced it had achieved a 12% rise in net profit after tax in the six months to 27 December 2015, and flagged further growth as the Company continues to improve its production capacity and pursues opportunities for expansion into new channels including the lucrative Asian market.

Net profit after tax increased by \$0.212 million to \$1.985 million for the half-year, with strong positive cash flow from operating activities of \$5.526 million helping to further strengthen the company's balance sheet.

The interim result was achieved despite a slight decline in overall group sales revenue affected by undersupply of stock (leading to missed sales) due to plant performance issues with old equipment awaiting replacement and teething issues during commissioning of new equipment.

Commenting on the latest results, Pental Chief Executive Officer, Charlie McLeish, said they showed the Company was on track for further growth following the progressive completion of several capital projects at its Shepparton, Victoria operations, which will boost production capacity and reduce operating costs.

"The Company achieved further earnings growth in the competitive grocery retail market, and although sales were affected by plant performance issues in the half, the Board remains confident that Pental's underlying earnings will continue to grow by bedding down the new equipment, and via its expanding pipeline of innovative new products, new channels and productivity savings."

Pental has declared an increased fully franked interim dividend of 1.00 cents per ordinary share (previous corresponding period interim dividend 0.85 cents), payable to shareholders on 25 March 2016, with a record date of 1 March 2016.

"With our current \$5.3 million capital expenditure program near completion, zero debt and very healthy cash reserves, Pental is still very well positioned to expand capacity, reduce costs, and pursue additional growth opportunities," Mr McLeish said.

Gross sales in the Australian market were down 2.2%, reflecting the circumstances outlined above. New Zealand gross sales rose 5.3% and Pental's market share grew in key categories, having successfully defended its position following a period of aggressive marketing by competitors.

As part of the start-up phase of expanding into Asia, soap sales into China have commenced ahead of schedule, with initial sales in late December 2015.



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Although net sales were down, underlying EBIT of \$3.080 million was \$0.165 million above the previous corresponding period.

This was achieved through ongoing cost savings, such as improved sourcing of raw materials, rolling refinement with supply chain costs and reduced corporate overhead costs, refocused marketing to specific in-store promotional activities and catalogues, and favourable movements in exchange rates.

While major capital upgrades have been progressing well, the long lead times for the new equipment to arrive has put pressure on some of old filling equipment, and teething issues during commissioning of new equipment, has hampered the operational performance in the first half, leading to lost sales. The \$5.3 million of capital projects announced 12 months ago, are all expected to be completed by May 2016.

In the last six months, the business also committed \$1.2 million to install a bulk filling line to progress with its strategy to enter into the commercial and industrial channels, and this is expected to be operational by July 2016. Furthermore, Pental is evaluating upgrades of its soap plants to support the Company's export strategy.

## OUTLOOK

"After recording its first sales into the Asian market in the half year, Pental is continuing to pursue new growth opportunities in the region and is actively negotiating supply arrangements for its products through a range of distribution channels including retailers, online shopping sites and pharmacies," Mr McLeish said.

"The Company met with a number of Asian-based businesses in January and is developing a range of new products which will be sold under Pental's power brands. We're very excited by the opportunities of opening up new distribution channels in the Asian market, and we expect more positive results will flow from our endeavours."

"The completion and strong progress made on a number of our capital projects will significantly reduce costs and build the capability for future growth via commercial/industrial and export channels."

Mr McLeish added that other positive factors include the development of a range of new products that will be presented to domestic retailers in the second half and which have already attracted healthy interest from prospective export customers.

As with the previous year, the second half EBITDA is expected to be higher than the first half, and at this time in line with the previous corresponding period.

The Company will also continue to seek value-creating opportunities such as distributorships, acquisitions and/or divestments of non-core brands, as the Board is committed to pursuing all avenues of improving shareholder value.

"Whilst the competitive nature of the grocery retail market remains consistent to prior periods and this is expected to continue in the foreseeable future, the business is in a healthy position to execute its growth strategies whilst defending and growing its current market position through innovation of its power brands," Mr McLeish said.

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### **About Pental Limited**

Pental is Australia's largest manufacturer of soap, supplying its own brands of Country Life, Natural Selections, Sunlight, Velvet, Knights Castile and Lux Flakes, together with the sale of icon brands such as White King, Janola, Jiffy Firelighters, Softly premium wool wash, Huggie fabric softener, Martha wool mix, Sureguard moth and silverfish repellent, Hi Speed iron cleaner and Aim toothpaste. More information on Pental is available at: [www.pental.com.au](http://www.pental.com.au)

