



## ASX ANNOUNCEMENT FOR PTL

26 February 2019

### PENTAL LIMITED 2019 INTERIM RESULTS

**Increased sales, new products, and cost efficiencies boost Pental first half profit by 20%**  
**Pears and new Country Life soaps to be on shelf in Chemist Warehouse**

#### HY19 Highlights

- Sales Revenue (Net Sales Revenue) \$48.025 million, up 26% on previous corresponding period driven by distribution agreements.
- Profit before finance costs & income tax (EBIT) \$2.085 million, up 19.6% on previous corresponding period.
- Net Profit After Tax \$1.438 million, up 20.1% on previous corresponding period.
- Basic Earnings Per Share 1.06 cents.
- Interim fully franked dividend 0.70 cents per ordinary share, payable on 27 March 2019, up 17% on previous corresponding period.

Pental Limited (Pental) today reported a solid first half performance with net profit after tax of \$1.438 million for the half year ended 31 December 2018 ('HY19'), up 20.1% on previous corresponding period. Total sales revenue was \$48.025 million, up by 26%. EBIT was \$2.085 million, 19.6% higher than the previous corresponding period.

Pental's earnings performance was bolstered by key distribution agreements with Unilever's Pears soap range and more recently Berkshire Hathaway's Duracell products (batteries).

#### Key features of HY19 trading performance

- Gross sales for the first half were up on the previous corresponding period by \$20 million or 37.2%.
- Australian market performance was driven by distributorships coupled with sales growth in Firelighters, Cleaners and Fabric Softeners. Price pressure impacted the toilet and personal care categories. Sales dropped in soaps and body wash due to previously announced strategic decisions to avoid deep discounting and to focus on promotions that maintain sustainable margins.
- Sales for the non-distributor business fell by 4.7% from the previous corresponding period due to the continuing disruptive nature of Pental's marketplace, as discussed in previous announcements.
- New Zealand market sales grew in cleaners, bleach and toilet categories but aggressive marketing competition in dish wash category brought overall sales performance down by 3.1%. Over the next 12 months, new product innovations will be launched to defend and strengthen market position.
- Asia gross sales were \$1.0 million for the period, with Asian expansion slower than anticipated. Personal care and cleaning products continue to be successful across China and Vietnam and will benefit from promotional brand plans over the next twelve months.
- Trade spend at 35% of gross sales was high compared to the corresponding period, mainly due to Duracell's legacy promotions and rebate structures. Excluding Duracell, trade spend was largely in line with the previous corresponding period.

- Duracell distributorship commenced into Australia and New Zealand in September 2018, with an efficient transition. Sales were slower than anticipated due to customers stock piling ahead of the transition to avoid any potential supply issues. This initial slow sales impact was countered by the seasonal uptake in battery sales during the Christmas period. Pental is focusing on growth strategies for the Duracell product range.
- Continuous improvement in cost efficiencies and operational performance. This included organisational restructuring of the management team delivering substantial savings in this period, with indirect wages down \$0.464 million on last year after absorbing additional Duracell business. Other cost savings included freight savings, improved warehouse productivity, improved quality controls, distribution efficiencies and rigorous cost controls.
- Improvements at the Shepparton manufacturing site include a renewed focus on waste reduction. Four new boilers were commissioned to reduce energy usage and a new trade waste system was commissioned to reduce both water and chemical usage.
- Working capital was up \$7.7 million compared to the previous year due to the new Duracell business. Consequently, the Company was \$0.245 million in overdraft at the end of December.
- Excluding the initial working capital impact of the new Duracell business, operating cash flows remain healthy. These cash flows are projected to continue into the second half of the year, enabling the payment of the interim dividend from operating cash flows while remaining debt free.
- Cash flow from operating activities was negative \$5 million, however, excluding the working capital impact of the new Duracell business, it remains healthy.

Details of the reported statutory result for the Group are as follows:

	Dec 18	Dec 17	Change	
	\$'000	\$'000	\$'000	%
<b>Gross Sales (GSV)</b>	<b>74,190</b>	<b>54,056</b>	<b>20,134</b>	<b>37.25%</b>
Trade Spend & Rebates	(26,165)	(15,950)	(10,215)	(64.04%)
<b>Net Sales</b>	<b>48,025</b>	<b>38,106</b>	<b>9,919</b>	<b>26.03%</b>
Trade Spend & Rebates to GSV	35.27%	29.51%		(5.76%)
<b>EBIT</b>	<b>2,085</b>	<b>1,743</b>	<b>342</b>	<b>19.62%</b>
EBIT to GSV	2.81%	3.22%		(0.41%)
<b>Net profit after tax</b>	<b>1,438</b>	<b>1,197</b>	<b>241</b>	<b>20.13%</b>
<b>Basic earnings per share in cents</b>	<b>1.06</b>	<b>0.88</b>	<b>0.18</b>	<b>20.13%</b>
<b>Interim Dividend Per Share in cents</b>	<b>0.70</b>	<b>0.60</b>	<b>0.10</b>	<b>16.67%</b>

### Reshaping for long term resilience

As previously announced, Pental is pursuing direct Distribution businesses to add scale and protect profitability. This is an integral part of the Company's business strategy that will also protect Pental's iconic brands.

### Product Growth Opportunities

Far from being a mature category, there are new and untapped opportunities in soap bars. In the United Kingdom, it has been reported that sales of soap bars have risen by nearly three per cent over the past year as consumers return to soap bars over liquid soap forms due to concerns over plastic overuse.<sup>1</sup> Pental is meeting that need, for example, with a new Country Life Brand Tradie Soap for heavy grit and grime and the new Country Life Fresh Linen with White Clay and the New Country Life Golden Lemon with natural ingredients.

<sup>1</sup> 'Barred soap is back as Brits avoid plastic bottles', The Telegraph online, 06.02.19 <https://www.telegraph.co.uk/news/2019/01/06/barred-soap-back-brits-avoid-plastic-bottles/>

Pental have recently formulated three new Fabric Care products under the Huggie brand. These products will be available in all Woolworths Stores effective from June this year as well being available in the Independent Retailers. The Huggie traditional Blue Fabric Softener was recently awarded the 2018 Canstar Blue Award as the most satisfied customer fabric softener product.<sup>2</sup>

### **Leveraging our end-to-end retail supply and distribution expertise**

CEO of Pental, Charlie McLeish said: "Our efficient end-to-end distribution channel is another great strength. Our network offers tremendous value to other brands seeking to enter the Australian market. By adding new brands to our network, such as Pears and Duracell, we are adding scale and increasing efficiencies further, thereby creating the opportunity for greater returns to shareholders.

"We are always looking for opportunities to expand our channel distribution network further and we will supply our New Country Life "Tradies Soap" and Pears range to Chemist Warehouse – Australia's largest pharmacy retail chain."

### **Pental Manufacturing**

Pental is capitalising on its reputation for producing quality Australian-made brands at its manufacturing base in the regional Victorian town of Shepparton, leveraging increasing consumer preference for locally made products.

"We're investing in capex at our Shepparton manufacturing site to create better efficiencies and future-proof our business. These investments include new boilers, live plant performance tracking, a trade waste system to lower our environmental footprint and a new bottle filling line to achieve both private label and branded growth contracts," said Mr McLeish.

### **Outlook**

The retail landscape will continue to be challenging with increased competition, margin squeeze, private label growth and heavy discounting.

Pental's brands and market share in key categories, bolstered by its distribution business, creates a strong base to continue to grow.

-ENDS-

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### **About Pental Limited**

*Wherever you go in an Australian and New Zealand home today it would be odd not to find at least one Pental product. White King, Janola, Sunlight, Softly, Country Life, Velvet, Martha's, Huggie, Natural Selections, Pears, LUX, Little Lucifer and Jiffy form the iconic brand portfolio. All created to make everyday life that much easier- that much simpler. The Pental tradition of providing our customers with products of superior quality continues with constant product innovation and improvements. Pental – Trusted by families for generations. More information on Pental is available at: [www.pental.com.au](http://www.pental.com.au)*

*'Trusted brands since 1856'*

<sup>2</sup> Canstar Blue Pty Ltd Awards <https://www.canstarblue.com.au/home-garden/fabric-softener/>