22 August 2014

ASX ANNOUNCEMENT

Release of FY14 Financial Report

Pental Ltd (ASX: PTL) (**Pental**) announces the release of it Financial Report for the year (52 weeks) ended 29 June 2014.

During 2014 financial year management and the Board continued to implement the next phase of its re-invigoration strategy before moving onto the next phase of its growth strategy. The cornerstone of this strategy for 2014 financial year was "consolidating and securing" its position in the Australia and New Zealand markets. This was achieved through:

- The continued pursuit of growth through new product development and innovation;
- Australian made and owned credentials launched on all key brand products;
- Improving on our manufacturing capability through capital investment and commitment to a continuous improvement/lean manufacturing disciplines;
- Becoming the dominant provider of domestic bleach through our White King brand and new private label business;
- Planning for the next significant capital investment – being a high speed liquid line, which will allow the business to grow its existing private label business and become more cost competitive;
- Investing in upgrading the Enterprise Resource Planning (ERP) system and a new forecast and promotional management system, to sharpen the business processes and disciplines;
- Further strengthening the Balance Sheet (with the issuance of Piggy Back Options to Loyalty Option holders who had exercised their Loyalty Options early) via a capital raising of $5.705 miilion (net of costs and tax). This enabled Pental to normalise its banking arrangements and set the foundation for future capital investment and growth; and
- Reinstatement of dividends supported by improved profitability and a more predictable business model with strong underlying cash flows.

Overview

The net profit after tax of $5.336 million for the year (52 weeks) was a $3.443 million improvement on last year. Whilst the Board was pleased with the result, the reduction of debt from $8.212 million to zero and the completion of the bleach plant relocation and upgrade, the expected bleach plant efficiency improvements have taken much longer than initially anticipated. In the more recent months, with a disciplined process of resolving production shortcomings, efficient production output has since substantially improved.

Pental gross sales of $109.4 million were 1.38% up on last year, with the main focus on maintaining/growing acceptable margins rather than participating in aggressive price reduction campaigns. Although the business continued to be under pressure from major retail customers to increase promotional allowances and reduce prices, it was able to reduce promotional spend which did not provide acceptable returns. As a result, a solid underlying EBITDA of $9.690 million was achieved - marginally above last year.

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The underlying EBITDA margin to gross sales of 8.8% (2013: 8.9%) was broadly in line with last year, considering:

- the increased cost of raw materials that could not be recovered through price increases;
- extra cost of rental ($0.786 million) following the sale and leaseback of the Shepparton properties and relocation of the corporate office in the prior year; and
- additional costs of $0.532 million incurred during the relocation/upgrade of the bleach plant and delayed promotional sales, as it proved more challenging than originally foreseen to achieve a consistent output from the bleach plant during this period of consolidation.

The underlying EBIT of $7.897 million was $0.652 million down on last year due to the increased depreciation expense arising from new capital investment, in particular the relocated and upgraded bleach plant.

To enhance our overall manufacturing and supply chain capability, the business also commenced the review of a number of manufacturing processes utilising continuous improvement/lean manufacturing principles. This will streamline many processes leading to further improvements in productivity and cost reductions. To improve margins and offset supplier cost pressures, Pental has and will continue to invest in new capital projects targeted to providing a short term payback (as a key priority) and proactively sourcing raw material and products from the most cost effective destination, whilst still maintaining our Australian Made and Owned credentials where strategically appropriate.

Table [i] below shows a reconciliation between the reported net profit after tax and the underlying EBITDA.

	FY14 [i] $'000	FY13 [i] $'000	% Change
Reported profit after tax	**5,336**	**1,893**	+100%
Net loss from discontinued operations	-	310	
Income tax expense	2,002	556	
Finance and borrowings costs	960	5,663	-83.0%
EBIT from continuing operations	**8,298**	**8,422**	-1.5%
Net one off/significant (income)/expense [ii]	(401)	127	
Underlying EBIT	**7,897**	**8,549**	-7.6%
Depreciation and amortisation	1,793	1,069	
Underlying EBITDA	9,690	9,618	0.7%

[i] Unaudited non-IFRS financial table

[ii] Refer to consolidated statement of profit or loss and other comprehensive income

On achieving a solid net profit for the year and by completing the capital raising of $5.705 million net of costs and tax (through the issuance of Piggy Back Options to Loyalty Option holders who had exercised their Loyalty Options early), this has enabled Pental to return to a net cash position and is now in a sound position to invest in the high speed liquid line and other capital projects to grow the business and reduce costs.

With the improved profitability, the Board has recommended payment of a fully franked full year dividend of 0.12 cents per ordinary share payable on 30 September 2014 with a record date of 12 September 2014. The Board had previously implemented a Dividend Reinvestment Plan (DRP), however has suspended the DRP given than this will be the first dividend payment since 2011.

Outlook

The Board is comfortable that the repositioning of the Group has resulted in a more predictable underlying cash flows business. This has been demonstrated through achieving a solid result in the 2014

financial year, bearing in mind in the recent prior years the business has endured a number of significant structural changes. As a result, following the payment of a full year dividend, the Board also plan to reinstate the payment of sustainable interim dividends, subject to performance and outlook of the business.
The pursuit of growth continues to be through new product innovation and competing on value rather than price alone, whilst progressively evolving our key brands into new categories and channels, supported by further growth expected through meeting the increasing demands of private label.
Similarly with manufacturing improvements being made and the ongoing refresh of its manufacturing capability through improved disciplines and further capital investment, such as the high speed liquid line (to be installed during 2015 financial year), and modernisation and consolidation of its soap manufacturing processes, Pental will be well placed to capitalise on future brand and private label growth opportunities, whilst leveraging its Australian made and owned credentials.

Whilst the highly competitive nature of the grocery retail market remains consistent to the prior years and this is expected in the foreseeable future, the business is better equipped to move forward and to take advantage of any value-creating acquisition or distributorship opportunities that may arise, as the Board is committed to pursuing all avenues of growth that will improve shareholder returns.

Furthermore, with the improved financial position, the Board now considers a share consolidation is appropriate due to the significant number of shares on issue. As shareholder approval is required, this will be submitted for shareholders' consideration at the Annual General Meeting.

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, Country Homestead wool mix, Sureguard moth and silverfish repellent, Hi Speed iron cleaner and Aim toothpastes. More information on Pental is available at: www.pental.com.au