



28 November 2019

## ASX ANNOUNCEMENT

### Chairman's Address to AGM

#### Welcome

Good morning Ladies and Gentlemen, it gives me great pleasure to welcome you all to the Pental Limited Annual General Meeting for 2019.

#### Financial Performance

With a nearly \$850,000 or 32.5 per cent increase in underlying profit after tax this year – I stand here today with immense confidence in our strategy.

The 2019 financial year continued to see aggressive competition and price cutting in Australia's consumer goods market – a trend that we flagged last year and one that looks to be the new normal in this country.

But we didn't let it define us.

In order to protect our market share and shelf space – we continued investing in marketing and price matching initiatives in key categories and segments, and we saw sales grow on last year in branded bleach, cleaners and firelighters.

We found ways to reduce production costs and better target the increasing share of private label in the fast-moving consumer goods market.

Key to our success – and something we flagged last year as important for our future – was the expansion of our distribution business, a key plank in our value-added strategic pillar.

Our successful addition of the Duracell distributorship to our Pental stable of brands was instrumental in delivering our 2019 results – which I will cover in more detail shortly.

The strategic partnership with Duracell began in September 2018 and was quickly integrated, as we moved Duracell products to supermarkets, sub-distributors and service stations across Australia within weeks.

As one of the world's most recognisable brands, the early success of the Duracell partnership has cemented our credentials as an efficient and attractive distribution partner for other multinational brands both here in Australia and in New Zealand.

The partnership has also enabled us to leverage our existing infrastructure to gain scale and achieve better recovery of our fixed costs. This efficient utilisation of infrastructure provides us means to defend our brands whilst preserving profitability.

To be more precise on our company's solid performance – I can report \$3.45 million in underlying profit after tax in 2019. That is up from \$2.6 million in the previous year. The 32.5 percent increase in our underlying profit is a testament to the success of our strategy.

Our net sales revenue grew by 32.7 per cent over the 2019 financial year compared to prior year predominantly due to the addition of Duracell to our portfolio.

And it wasn't only the Duracell partnership where we unlocked potential.

Over the past 12 months, we doubled down on our brand consolidation strategy to protect



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Pental's shelf space in tough market conditions.

2019 saw us co-brand our Lux and Martha's brand names under the Softly umbrella to build a strong laundry care portfolio.

By co-branding these products, we were able to increase the presence of the Softly brand more economically due to scale.

Australia is a tough market, there is no doubt about that. And we have experienced some challenges as price promotions have become the norm and consumers switch brands in response.

During the year – and something that I know some of our shareholders have asked about already – our net working capital increased in the 2019 financial year largely due to the addition of our Duracell distributorship. Excluding Duracell, total working capital in fact improved on prior period by nearly \$1.5 million.

In order for us to make Duracell successful – which the past ten months of sales have clearly proven that it can be a successful commercial addition – we need to carry greater inventory cover because of the product's long import lead times as much as 16 weeks on certain lines.

This is in contrast to our Pental brands as we make them on site and therefore need to carry little inventory cover.

And in the case of Duracell, we see a desirable return on working capital invested as a part of strategy to return profit to you, our shareholders. Our cash position remains positive with a net cash balance of \$246,000 at the end of the financial year and we continue to be debt free, despite having to fund the working capital requirements of Duracell.

The Board was pleased to approve a final fully franked dividend for the 2019 year of 1.3 cents per share. This brings the total dividend for the financial year to 2.0 cents per share (representing a payout ratio of 79 per cent) which I'm pleased to report is 0.5 cents higher than the prior year.

The Board continues to maintain a dividend policy that is mindful of the needs and expectations of you, our shareholders, while providing a continuity of sustainable earnings for both Pental and our shareholders.

### **Outlook and conclusion**

Being very cognisant of the tough market conditions here in Australia, we continue to support our brands such as White King, Janola and Huggies that families in this country have trusted for generations.

No doubt it's become very clear to you all today that growth of our distribution business is a key plank to our success looking forward by providing us cost efficiencies and scale.

With strong investment in field and merchandising support, coupled with our leading innovation pipeline, we are protecting our market share and shelf space

We are also expanding the reach of our brands by pursuing new Australian retailers to reach even more consumers.

On the export front, it's a market that is an important part of our long-term growth vision.

We are exploring opportunities in other key Asian markets including South Korea, Indonesia Taiwan, Philippines and Thailand building on the distributor partnership I spoke about last year so we can reach even more consumers.

On top of our strategic partnerships, strong innovation pipeline and moving in new markets – it will be important to continue to keep costs down as we challenge growth in private label;

something we are seeing set in as consumers remain highly cost-conscious.

One of the ways we will support cost control, production efficiency and growth in contract manufacturing opportunities will be our investment in replacing one of the old liquid lines at Shepparton. We have recently commissioned the new line at our Shepparton plant.

The new line will be used for non-bleach liquids such as liquid soaps and dishwashing detergent – and is another way we are demonstrating our commitment to our heritage here in Australia.

I said last year that no-one should underestimate the significance of the challenges in the consumer goods market we operate in – and this remains true.

I want to thank Charlie and his team for delivering the fantastic 2019 financial year results – in such conditions.

Ends.

***About Pental Limited***

At Pental, we are dedicated to delivering the highest quality and value in all our products. We are proud to make a range of branded products (including White King, Country Life, Velvet, Softly, Martha's, Sunlight, Huggie, Jiffy, Little Lucifer, Aim and Janola) that have been an important part of Australian and New Zealand families for generations. Our goal is to help families live better by providing high quality products for *today's lifestyles* – which in itself shows our commitment to catering to the ever-changing needs of our consumers' lifestyles.

Innovation, production efficiencies and quality are the pillars which make up our core focus as providers of quality products and continue to make our manufacturing sustainably successful. More information on Pental is available at: [www.pental.com.au](http://www.pental.com.au)

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