24 August 2018

ASX ANNOUNCEMENT for PTL
Pental Limited

Full Year Financial Result, 52 weeks ending, 1st July 2018

FY18 Results at a Glance

- Gross Sales Revenue $108.427 million.
- Underlying Net Profit after Tax $2.602 million however Non-Cash Goodwill Impairment of $29.446 million results in Statutory loss after tax $27.839 million.
- Operational Cash Flow $7.310 million, and Final Dividend declared 0.90 cents per share fully franked, bringing the total dividend for FY18 to 1.50 cents per share.

Changing Trading Conditions

The consumer goods market in Australia, including the market segments in which Pental competes, has undergone a significant transformation. The market is now characterised by deep and overlapping price reduction campaigns, where half-price is the norm. It is likely that these trading conditions will continue at least for the medium term.

For Pental to successfully defend its shelf space (given a new multinational entrant) and effectively compete in these market conditions, during FY18 it was necessary to invest heavily in price matching initiatives. As previously advised to the market in the November 2017 and May 2018 trading updates, Pental expected its defensive strategy to impact profitability, and this has occurred. The strategy has however allowed Pental to maintain shelf space and product rankings. While net sales revenue decreased by $9.456 million or 11.11%, FY18 volume (cartons sold) was also unfavourable to FY17 for the Group by 3.1%, with the domestic market down 3.9%.

The Group's underlying EBIT of $3.783 million (FY17 $8.547 million) was in line with the estimated underlying EBIT reported in the May 2018 trading update. Underlying Net Profit After Tax (NPAT) was down 56.4% to $2.602 million for the year.

Statutory NPAT was impacted by a non- cash goodwill impairment of $29.446 million. Pental took the conservative decision to write off all goodwill on its books given that it expects market conditions to remain challenging. Notwithstanding this, impairment testing for the Group's brand names continues to support their recoverability and no write-off of brands was required, reinforcing the strength and health of Pental's brands in the current disruptive market environment.

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The reported statutory result for the Group is a net loss after tax of $27.839 million, details of which are as follows.

	FY18 (i) $'000	FY17 (i) $'000	% Change
Underlying EBITDA	**7,342**	**11,923**	-38.4%
Depreciation and amortisation	(3,559)	(3,376)	
Underlying EBIT	**3,783**	**8,547**	-55.7%
Finance costs	(40)	(44)	
Underlying profit before tax	**3,743**	**8,503**	-56.0%
Underlying income tax expense	(1,141)	(2,541)	
Underlying net profit after tax	**2,602**	**5,962**	-56.4%
Significant items (net of tax):			
Impairment of goodwill (ii)	(29,446)	-	
ACCC Penalty and Costs (iii)	(995)	(112)	
Reported (loss) / profit after tax	**(27,839)**	5,850	-100.0%

(i) Unaudited non-IFRS financial table
(ii) Impairment of goodwil is not tax deductible
(iii) Penalty of $700 thousnd is not tax deductible

Pental's initiatives in current market

Whilst Pental's defensive strategy has been successful, other initiatives were taken in FY18 to preserve profitability. Pental maintained a focus on expenditure control while improving manufacturing efficiencies. Initiatives were:

- $1 million annualised savings generated from employee restructure undertaking over the second half of FY18 to be realised in FY19.
- $0.576 million profit delivery projects ($0.401 million supply chain and manufacturing) realised in FY18
- Average production line efficiency was 90% for the year, up 6% on FY17
- Production labour efficiency was 95%, up 7% on FY17
- DIFOT/Fill Rates 97%, up 6% on FY17

Pental's net working capital improved by $2.665 million on FY17 and the Group's cash position remains very strong, with a net cash balance of $7.045 million at the end of the financial year. The Group continues to remain debt free.

Dividend

The Board has today declared payment of a fully franked final dividend of 0.90 cents per ordinary share. This brings the total dividend for the financial year to 1.50 cents per share (FY17 3.25 cents per share), representing a payout ratio of 78.5%, on underlying net profit after tax (Payout Ratio 2017: 74.3% on underlying NPAT). The Board believes that the final dividend for FY18 appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth. The final dividend will be paid on 28th September 2018. The record date for determining the entitlement is 10th September 2018.

OUTLOOK

Pental remains focused on driving long term profitable growth and generating solid total shareholder returns. Responding to the changing market conditions, the Board and executive leadership team reviewed and realigned the Groups five strategic pillars in the 3rd quarter of FY18. This allows the Group to be in a stronger position in FY19 to respond to the external pressures and aggressive retail market environment.

Domestic

Trading conditions remain very price competitive, however FY19 has commenced with the successful advertising and promotional outcomes with White King Coles Little Shop Promotion in July/August. Sales objectives for White King Toilet Gel Bottles in Coles during this promotion exceeding expectations.

Pental has also invested in a field sales support structure to support and further strengthen the presence of our brand and products in store and on shelf.

The Pental product innovation pipeline has always been strong, demonstrated by the superior performance and efficacy of our products, and is evolving to expand our product offering into new categories.

Pental has commenced in conjunction with key customers to execute its brand realignment strategy. The brand realignment strategy will result with Pental having 4 key retail brands (White King/Janola, Country Life, Softly and Sunlight) to support with advertising and promotions.

New Zealand

In New Zealand we continue the very strong arrangement with our New Zealand based distributor with whom we have had a 6-year partnership. Pental's key drivers for growth in New Zealand include innovation strategies through increased ranging and category expansion through alternative trade opportunities where we have engaged with hardware and independent accounts.

Asia

We continue the journey with our expansion into Asia. Pental has engaged distributors and is continuing to discuss distribution opportunities with large National Distributors in China. We have commenced partnerships with both Vietnam and Thailand based distributors.

Conclusion

Pental will continue its strategy of producing profitable iconic, Australian made branded products that are relevant to our consumers. In addition, we will continue to investigate other initiatives to increase sales revenues and reduce costs, including additional private label opportunities, further manufacturing efficiencies and new product distribution agreements.

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More information on Pental is available at: www.pental.com.au