

Chairman's and CEO's Letter

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We are pleased to invite all shareholders to attend Asaleo Care's sixth Annual General Meeting to be held on **21 April 2020** at the offices of PwC in Melbourne, starting at **4:00pm**. The meeting will provide an opportunity to discuss all matters relating to the Company's activities.

2019 saw Asaleo Care return to revenue growth across all our key brands and in both our business segments of Retail and B2B. This growth was driven by a step change increase in brand investment and new product launches from a strong development pipeline.

We also reinstated dividend payments with a 2c per share unfranked dividend being declared. This resulted from our disciplined approach to capital management and positive free cash flow of \$21.8 million in the second half.

We delivered an underlying EBITDA of \$82.4 million, which was in line with our market guidance. After excluding the effect of the new lease accounting standard this was \$10.1 million down on the prior year, mainly due to a \$10 million investment in brands, including a 49 per cent increase in advertising and promotions.

With proceeds from the sale of the Australian Consumer Tissue business, we reduced our net debt by 46 per cent, down to \$139.3 million. Our leverage ratio also reduced, down to 1.95 times EBITDA, which is within our target range of 1.5 to 2.5 times.

Following the sale of the Australian Consumer Tissue business, one of the residual strengths of our business and a key aspect of our strategy is customer and channel diversity. In 2019, 53 per cent of revenue and 57 per cent of EBITDA was generated from our B2B segment in which no individual customer represents more than 5 per cent of total B2B sales.

Less than 25 per cent of our retail sales (or less than 15 per cent of total sales), were through the major retailers in Australia. With the change in mix of our product portfolio, the remainder of our retail sales were through Pharmacy, non-traditional retail formats, New Zealand, Pacific Islands, e-commerce and government procurement, with the Victorian Government Schools Feminine Care initiative.



Harry Boon Chairman **Sid Takla** CEO and Managing Director

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Business-to-Business (B2B)

B2B segment revenue grew 1.6 per cent to \$221.6 million.

TENA Healthcare revenue was up 3 per cent with growth in both the Community and Residential Care channels. Tork Professional Hygiene finished the year strongly after a slow start, with revenue up 1 per cent on prior year.

Our proprietary 'hero' systems continue to grow and now represent over 36 per cent of all Professional Hygiene sales.

During 2019 we completed on-time and on-budget the major investment of a \$23 million converting line for our B2B Tissue business at Kawerau. This investment is delivering improved cost and quality and a wider product range that will enable growth.

Margins in B2B were negatively impacted by further increases in energy and property insurance costs.

In addition, production shuts required for the installation of the new converting line in Kawerau, and the depreciation in both the Australian and New Zealand dollars against the US dollar and Euro, also compressed margins.

In quarter four our Tork Professional Hygiene business launched two major product innovations, Tork Peakserve and Tork Coreless. Earlier in the year, TENA Healthcare launched TENA Identifi which utilises revolutionary sensor technology to track a resident's urinary patterns and volumes during a 72-hour period, then generating a report which enables improved and individually tailored care. To bring our strong pipeline of innovation to market, we made an incremental investment in our B2B sales resources.

We expect these innovations and investments to continue to generate growth for the B2B business in 2020 and beyond.



We are building a strong foundation for our business to enable step change growth, with a key focus on the capability of our people, the discipline of our processes, and a culture of accountability and integrity.

Retail

Retail segment revenue grew strongly, up 4.7 per cent to \$198.6 million.

Volume and value growth was achieved across all categories except our New Zealand Baby business.

With a renewed focus on customer and consumer, we have achieved incremental ranging in our key categories, and supported this through increased investment in shopper-based activity, brand advertising, and increased sales and marketing resources.

Consumer Tissue New Zealand was a key driver of this growth, up 17 per cent, with new product launches, supported by an increase in trade investment across the Tissue portfolio.

Incontinence Retail was up 6 per cent driven by new product launches such as the TENA Discreet Ultra Thin Pads, improved ranging and the new TENA Carnival advertising campaign.

Libra sales volume increased 7 per cent, assisted by the launch of the new Libra Girl product range and the successful launch of the #bloodnormal advertising campaign, heralding the return of increased brand investment in Libra.

We increased advertising and promotion spend by 49 per cent, boosted shopper activity to support the new product launches and invested in incremental sales and marketing resources. These investments in our brands, together with higher energy and property insurance costs, as well as unfavourable foreign exchange movements drove down Retail EBITDA margins.

We will continue to support new product launches, build on our major campaigns and partnerships, and increase investment in our brands to drive long-term growth.

Safety

The safety of our employees and contractors is paramount. Over the last 24 months, we have spent over 21 per cent of maintenance CAPEX on specific safety-related initiatives.

With our continued focus on safety, we have made good improvements in 2019 with Lost Time Injuries, Lost Time Injury Frequency Rate and the Severity Rate decreasing to lower levels compared to each of the four prior years.

We will continue to maintain our focus and investment on safety in every way, and do our utmost to ensure we're sending our employees and contractors home safely every day.

Asaleo Care and its employees take great pride in delivering on our purpose of 'Care, comfort and confidence every day' to all our stakeholders.

During 2019, we continued to strive for leadership in Environmental, Social and Governance standards. Initiatives included: releasing our Preliminary Modern Slavery Statement; making a 'first in our industry' commitment not to use pulp fibre from drained tropical peatlands; committing to reduce our greenhouse gases Scope 1 and 2 by 28 per cent by 2025; expanding the number of our products that have an Environmental Product Declaration (which measures the environmental impact over their entire lifecycle), and investing in major assets such as the new converting machine in New Zealand to improve efficiency and reduce waste.

Sustainability is a key differentiator for Asaleo Care and we'll continue to build our credentials in this area.

Strategy

We are well advanced in implementing our strategy, put in place 18 months ago, to become the leader in Personal Care and Hygiene in Australasia by investing in our brands and putting the needs of our customers and consumers first and thereby drive profitable sales growth.

Our key focus areas for 2020 will continue to include:

- + Targeted sales growth
- + Providing a differentiated offer, and
- + Supply chain excellence

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Outlook

With continuing sales growth and the anticipated further easing of pulp prices sheltering other cost increases, our present outlook for 2020 is an underlying EBITDA in the range of \$84 million to \$87 million. We anticipate continuing to pay down debt, investing in our brands and returning to sustainable dividends.

The strategic foundations we put in place over a year ago are starting to take effect and we will continue to deliver results by placing the needs of our customers and consumers first.

We thank all our employees for their dedication and hard work. We also thank our shareholders, customers, consumers and other stakeholders for their ongoing support and commitment to Asaleo Care.



Harry Boon Chairman



Sid Takla CEO and Managing Director