Financial Review Summary

FY19 RESULTS VERSUS FY18

A$ MILLION	CONTINUING UNDERLYING 2019[1]	CONTINUING UNDERLYING 2018[1]	CHANGE %
Revenue[2]	**420.2**	**407.8**	3.0%
EBITDA[3]	**82.4**	**81.5**	1.1%
Depreciation	**(25.5)**	**(15.7)**	62.4%
EBIT	**56.8**	**65.8**	(13.7%)
Net Finance Costs[2]	**(12.0)**	**(14.8)**	(18.9%)
Profit Before Tax	**44.9**	**51.0**	(12.0%)
Tax Expense	**(13.2)**	**(14.0)**	(5.7%)
NPAT	**31.7**	**37.0**	(14.3%)
Statutory NPAT/(NLAT)	**22.1**	**(108.7)**	large

1. Refer to page 46 for a reconciliation between the FY19 and FY18 Statutory and Underlying result.
2. Revenue excludes interest income, which is recognised within Net Finance Costs.
3. Prior year EBITDA includes lease expenses. 2019 EBITDA does not include lease expenses as required by AASB 16.

Revenue: With a renewed focus on our customers and consumers as well as increased investment in our brands, the Group returned to revenue growth in 2019, achieving 3% growth over the prior period. This growth was achieved across the business with the Retail segment growing 5% and the Business to Business segment (B2B) growing 2%.

Retail: With the exception of our Baby Care business in New Zealand, all Retail businesses delivered growth.

Growth in our Consumer Tissue business in New Zealand was achieved through a combination of successful launches of new products in our toilet paper and hand towel categories, improved promotional effectiveness as well as expanding the distribution of existing products into new stores.

Our branded Feminine Care business delivered modest growth of 1%. We have invested heavily in our brands through marketing and advertising (e.g. #bloodnormal campaign), trade promotional spend and new product launches such as Libra Girl. Most of this investment occurred in the second half of the year which we expect will deliver improved sales growth in future periods.

Our Incontinence business delivered strong growth of 6% over the prior year from a combination of multiple new product launches, improved promotional effectiveness and increased investment in marketing and advertising.

During the second half of the year, our Baby Care business launched the Treasures Care nappy range, a more environmentally friendly nappy made in New Zealand which is key to rebuilding the brand. However, the launch did not offset the loss of distribution earlier in the year resulting in this business declining over the prior year.

B2B: Growth was achieved by both the Professional Hygiene and Incontinence HealthCare businesses.

Professional Hygiene achieved modest sales growth of 1% for the full year but pleasingly achieved 3.2% growth in the second half after cycling against some low margin contract losses in 2018 (post price increases linked to pulp costs). The Professional Hygiene business continues to focus on building the branded portfolio through our Hero and Value Add proprietary systems. Sales of these systems now account for approximately 36% of the total portfolio.

Incontinence Healthcare delivered solid growth of 3% on prior year attributable to growth in the community channel, new customer contracts and an improved mix of product sales.

EBITDA: Reported Underlying EBITDA increased 1.1%, however after adjusting for the AASB 16 changes for lease accounting, EBITDA declined by 10.9%. The key drivers for this decline include:

- Significant investment in promotional trade spend to drive volume growth and maintain market share;
- Increased investment in our brands with Advertising and Promotion spend 49% higher;
- Increased investment in the B2B sales team to drive future growth;
- Increased manufacturing input costs, most notably insurance and energy; and
- Unfavourable foreign exchange movements on foreign currency denominated purchases with both the NZD and AUD deteriorating against the USD and Euro throughout the year.

EBIT: The decline in EBIT to $56.8 million in FY19 from $65.8 million in the corresponding period is largely due to the reasons outlined above. Depreciation and Amortisation Expense increased as a result of the adoption of AASB 16 in 2019 regarding lease accounting and also depreciation on assets acquired.

Net Finance Costs: As a result of applying the proceeds from the sale of the Australian Consumer Tissue business in early 2019 to reduce debt and lower interest rates, net finance costs decreased 18.9%.

NPAT: FY19 Underlying NPAT of $31.7 million was unfavourable 14.3% compared with FY18 of $37.0 million.

BALANCE SHEET

A$ MILLION	2019	2018	% CHANGE
Cash and cash equivalents	**33.2**	67.4	(50.7%)
Trade Receivables	**23.8**	13.0	83.1%
Inventories	**104.7**	107.3	(2.4%)
Other current assets	**7.5**	12.7	(40.9%)
Tax assets	**2.1**	6.7	(68.7%)
Property, plant and equipment	**151.9**	138.6	9.6%
Right-of-use assets	**23.0**	–	100%
Intangible assets	**134.8**	134.5	0.2%
Assets classified as held for sale	**–**	178.8	(100%)
Total Assets	**481.0**	**659.0**	**(27.0%)**
Payables and provisions	**79.0**	100.9	(21.7%)
Other current liabilities	**2.2**	0.6	266.7%
Lease liabilities	**25.5**	–	100%
Interest-bearing liabilities	**171.3**	325.7	(47.4%)
Other non-current liabilities	**0.4**	0.4	–
Deferred tax liabilities	**20.5**	20.3	1.0%
Liabilities associated with assets held for sale	**–**	46.4	(100%)
Total Liabilities	**298.9**	**494.3**	**(39.5%)**
Net Assets	**182.1**	**164.7**	**10.6%**

Key balance sheet movements during the year ended 31 December 2019 were:

+ **Receivables:** Increased due to higher sales at the end of 2019 and delayed customer receipts (received in early 2020).
+ **Other current assets:** Decrease due to receipt of $7.5m in 2019 for the refund of an escrow payment in 2018 in relation to the sale of the Australian Consumer Tissue business, however 2019 includes a receivable for a final payment due in relation to the sale of the Australian Consumer Tissue business.
+ **Property, plant and equipment:** Increase due to new converting wide winder being installed at Kawerau site NZ, slightly offset with depreciation of existing assets.
+ **Payables and provisions:** Decrease is primarily due to timing of payments to suppliers in the prior year which was mainly attributable to the transition for the sale of the Consumer Tissue Australia business, and the timing of tax payments.
+ **Interest-bearing liabilities:** Lower interest-bearing liabilities largely due to the application of proceeds from the sale of the Australian Consumer Tissue business to reduce debt.
+ **Deferred taxes:** Small increase due to utilisation of prior year losses offset by movements in provision balances.
+ **Other current liabilities:** Increase due to the mark-to-market valuation of out of the money foreign currency contracts.
+ **Assets and liabilities classified as held for sale:** The 2018 balances related to the sale of the Australian Consumer Tissue business completed in March 2019.

FREE CASH FLOW

A$ MILLION	2019	2018	CHANGE %
Underlying EBITDA	**82.4**	81.5	1.1%
Discontinued Operations	**(16.2)**	(0.9)	1,700.0%
Changes in working capital	**(42.6)**	27.3	(256.0%)
Consumer Tissue retained net payable	**(22.7)**	0.0	–
Maintenance capital expenditure	**(11.0)**	(17.2)	(36.0%)
Financing	**(11.9)**	(12.7)	(6.3%)
Lease Payments	**(11.3)**	0.0	–
Taxation	**(7.6)**	(1.2)	533.3%
Other/Non recurring	**1.5**	(12.0)	112.5%
Free Cash Flow	**(39.4)**	64.8	(160.8%)

Total free cash flow decreased by $104.2 million compared with the prior year.

Key drivers of the movement are:

+ **EBITDA:** Increase of 1.1%, however after adjusting for the first adoption of AASB 16 regarding lease accounting, EBITDA declined by (11.2%). Key drivers for EBITDA decline are detailed on page 42.
+ **Changes in working capital:** Increase in working capital of $42.6 million mostly relates to a number of working capital initiatives that were implemented in 2018 to generate short term cash which were repaid in early 2019. Higher sales in December combined with delayed customer payments also drove higher receivables at year end.
+ **Consumer Tissue retained net payable:** Terms of the sale included the retention of all net payable balances pertaining to Consumer Tissue Australia at settlement.
+ **Maintenance capital expenditure:** Reduction due to the sale of the Consumer Tissue Australia business in early 2019. In 2018, this business incurred $6.2 million on maintenance capital expenditure.
+ **Financing:** Higher financing payments due to timing of interest payments.
+ **Taxation:** Higher tax relates to timing of tax payments.
+ **Other:** Includes non-recurring expenditure, currency exchange movements on opening foreign cash balances and translation on foreign operations opening working capital.

FINANCIAL INDEBTEDNESS

A$ MILLION	2019	2018
Non-current interest bearing liabilities[1]	**172.5**	327.5
Total debt	**172.5**	327.5
Cash and cash equivalents	**33.2**	67.4
Net debt	**139.3**	260.1
Leverage (Net debt/Underlying EBITDA)	**1.95**	3.25

1. Excludes capitalised borrowing costs: 31 December 2019 of $1.2 million and 31 December 2018 of $1.8 million

Leverage: 31 December 2019 is less than 2× which is well within the target range of 1.5× to 2.5×. Proceeds from the sale of the Consumer Tissue Australia business were used during the year to lower debt.

Total debt: Asaleo Care has two main debt facilities. In June 2018 the debt was renegotiated and extended. Facility A has a commitment of $70 million, maturing 31 July 2021, Facility B has a commitment of $40 million, maturing 31 July 2023 and Facility C has a commitment of $50 million, maturing 31 July 2022. In addition, we hold Senior Notes for $90 million. Series A note is for $65 million and expires on 26 June 2025 and Series B note is for $25 million and expires on 26 June 2028.

Cost of debt: All up cost of debt in FY19 was 4.8% compared to FY18 of 4.3%.

RECONCILIATION BETWEEN CONTINUING STATUTORY AND UNDERLYING FINANCIAL INFORMATION

Consolidated income statements for the years ended 31 December 2019 and 31 December 2018

A$ MILLION	STATUTORY 2019	STATUTORY 2018	ADJUSTMENTS[1] 2019	ADJUSTMENTS[1] 2018	UNDERLYING 2019	UNDERLYING 2018
Revenue[2]	**420.2**	407.8	**–**	–	**420.2**	407.8
EBITDA[3]	**80.8**	37.2	**1.6**	44.3	**82.4**	81.5
Depreciation	**(28.5)**	(18.0)	**2.9**	2.3	**(25.5)**	(15.7)
EBIT	**52.3**	19.2	**4.5**	46.6	**56.9**	65.8
Net Finance Costs[2]	**(12.0)**	(14.8)	**–**	–	**(12.0)**	(14.8)
Profit Before Tax	**40.4**	4.4	**4.5**	46.6	**44.9**	51.0
Tax Expense	**(11.9)**	(3.6)	**(1.3)**	(10.4)	**(13.2)**	(14.0)
Net Profit After Tax	**28.5**	0.8	**3.1**	36.2	**31.7**	37.0

1. As reported in the Segment Note contained within the Financial Statements (Section 2.1).
2. Interest income has been disclosed within 'Net Finance Costs'.
3. Prior year EBITDA includes lease expenses. 2019 EBITDA does not include lease expenses as required by AASB 16.

Adjustments for the Year Ended 31 December 2019

EBITDA: Represents costs associated with the upgrade for the Kawerau site.

Depreciation: Represents accelerated depreciation related to the Kawerau site upgrade.

Tax Expense: Tax impact of adjustments recognised within Profit Before Tax.

Adjustments for the Year Ended 31 December 2018

EBITDA: Represents costs associated with abnormal manufacturing, abnormal third-party warehousing, restructuring, upgrade for the Kawerau site and impairment and asset write downs for Personal Care New Zealand.

Depreciation: Represents accelerated depreciation related to the Kawerau site upgrade.

Tax Expense: Tax impact of adjustments recognised within Profit Before Tax.

RETAIL BUSINESS SEGMENT

A$ MILLION	STATUTORY 2019	STATUTORY 2018	ADJUSTMENTS[1] 2019	ADJUSTMENTS[1] 2018	UNDERLYING 2019	UNDERLYING 2018
Revenue	**198.6**	189.6	**–**	–	**198.6**	189.6
EBITDA[2]	**35.6**	(5.2)	**–**	41.6	**35.6**	36.4

1. Segment commentary below should be read in conjunction with the consolidated income statement section above.
2. Prior year EBITDA includes lease expenses. 2019 EBITDA does not include lease expenses as required by AASB 16

EBITDA adjustments for the year ended 31 December 2018: Represents costs associated with abnormal manufacturing, abnormal third-party warehousing, restructuring and impairment of Personal Care New Zealand.

B2B BUSINESS SEGMENT

A$ MILLION	STATUTORY 2019	STATUTORY 2018	ADJUSTMENTS[1] 2019	ADJUSTMENTS[1] 2018	UNDERLYING 2019	UNDERLYING 2018
Revenue	**221.6**	218.2	**–**	–	**221.6**	218.2
EBITDA[2]	**45.2**	42.4	**1.6**	2.7	**46.8**	45.1

1. Segment commentary below should be read in conjunction with the consolidated income statement section above.
2. Prior year EBITDA includes lease expenses. 2019 EBITDA does not include lease expenses as required by AASB 16.

EBITDA adjustments for the year ended 31 December 2019: Represents costs related to the Kawerau site upgrade.

EBITDA adjustments for the year ended 31 December 2018: Represents costs related to the Kawerau site upgrade.

2020 Outlook

Asaleo Care should continue to deliver revenue and profit growth through a number of new product launches, incremental investment in our brands together with new business contracts in both our B2B and Retail segments.

Whilst profit should benefit from improved pulp pricing and efficiencies from our new NZ tissue converting asset, cost challenges of energy, insurance and foreign exchange will reduce these benefits. Further, profit will be adversely impacted by the full year effect of the stranded costs post the divestment of the Australian Consumer Tissue business.

We expect the business to generate positive free cashflows in FY20, which will be applied to reduce debt, reinvest back in the business and resume consistent dividend payments.