CHALLENGER POSITION IN PERSONAL CARE MARKET

Edgewell is the personal care business of the old Energizer Holdings. In 2015, the Company spun-off the battery business to the newly formed Energizer Holdings, Inc. (ENR – NYSE listed) and renamed itself Edgewell Personal Care Company (EPC – NYSE listed, Market Capitalisation US$4.5B). Edgewell reported annual net sales of US$2.362B in 2016.

Edgewell has a portfolio of over 25 personal care brands that it acquired in the years since 2003. These brands include Schick, Wilkinson Sword, Edge, Skintimate, Playtax, Hawaiian Tropic, Banana Boat, Carefree, Stayfree, o.b. and others. These brands hold competitive positions in attractive categories within the Personal Care market and are among the top three players in all the categories/market segments they compete in:

- WET SHAVE #2 (Shaving - Male/Female) - Key Markets: US, Canada, Japan and Germany
- SUN & SKIN CARE #1 (Sun) Key Markets - US, Mexico and Australia
- FEMININE CARE #2/#3 (Tampons/Liners and Pads) - Key Markets: US and Canada
- INFANT CARE #1 (Diaper Disposal) - Key Markets: US and Canada

AN ATTRACTIVE MARKET AND SUSTAINABLE VALUE PROPOSITION

"you can sleep pretty well at night if you think of a couple billion men with their hair growing on their faces. It is growing all night while you sleep. Women have two legs; it is even better. So it beats counting sheep. And those are the kinds of business (you look for)…" - Warren Buffett on the shaving business, 15th October 1998.

COST-CUTTING PAVES WAY FOR MARGIN IMPROVEMENT

The Company has suffered from cost increases due to the dis-synergies after the separation from Energizer Holdings. However, Management expects the cost saving initiatives / restructuring programmes announced should more than cover the additional corporate and SG&A costs caused by the separation, and target +50bps of operating margin expansion per annum going forward.

INTERNATIONAL GROWTH OPPORTUNITIES

Edgewell has a global footprint in only 50 countries (versus its peers P&G and Unilever who are both present in over 180+ markets). Currently, the Company derives 42% of its revenue from its international business, which is the faster growing market segment for all its products. As the Company continues execution of its go-to market changes, the simplified and streamlined distribution model will also allow the Company to enter new markets with greater agility and lower costs. As an example, the all-important but extremely competitive Men's Wet Shave in the U.S. represents only 9% of global wet shave category sales. Edgewell is seeking growth opportunities in the other 91% (i.e., internationally), and other adjacent product segments.

POTENTIAL EXPANSION IN E-COMMERCE & DIRECT TO CONSUMER (DTC) MARKET SEGMENTS

We note that Edgewell has not proactively engaged or participated in the fast growing online/e-commerce market, especially in relation to Direct-to-Consumer (DTC) solutions (such as Dollar Shave Club). Management has noted the Company is currently investigating DTC propositions and we eagerly await clarification on this issue.

We see parallels in the media sector where content creators are restricted in their ability to execute aggressive DTC strategies due to pre-negotiated contracts with distribution partners. This contrasts with new players who have been able to aggressively expand DTC solutions, quickly gaining market share. Disruptive businesses are challenging market fundamentals and we urge Management to review their current business strategy with a focus toward innovation in an effort to remain competitive.

LOW CAPEX PROVIDES HISTORICALLY HIGH FREE CASH FLOWS

It is important to understand a company's ability to generate cash without external financings. We look at measures such as the Free Cash Flow (FCF) Conversion Rate* to help gauge the resources available for strategic opportunities such as undertaking acquisitions, investing in the business, strengthening the balance sheet, and to assess the robustness of a company's earnings performance. Edgewell has historically generated significant free cash flow due to its low capex requirements, achieving a FCF Conversion Rate of 100%+. Management is guiding FCF Conversion of 100%+ for 2017 which will enable the Edgewell to reinvest in the business, return value to shareholders and pursue a disciplined approach to acquisitions.

**Free Cash Flow Conversion Rate (Efficiency) is defined as Free Cash Flow / Net Income. This measure illustrates how efficient the business is at generating free cash flow versus its reported / accounting net income.*

REINSTATING A DIVIDEND

Edgewell eliminated quarterly dividends following the separation from Energizer. The priority of uses of cash is first business development, followed by M&A and then share repurchase, although a dividend policy is reviewed by the Board regularly. We suggest the stock will be rerated if/when Edgewell reinstates its dividend. The Company's high free cash flow conversion rate makes it an ideal candidate to be a consistent dividend paying stock. Reinstating its dividends would allow institutional investors which require a stock to pay a dividend to invest in the Company.

ACQUISITION TARGET - ATTRACTIVE CATEGORIES IN PERSONAL CARE WITH SYNERGISTIC OPPORTUNITIES

Edgewell is an attractive acquisition target for larger players in the industry due to its relatively small size, strong/challenger position in several attractive categories in personal care and the potential strong top-line/cost synergies that could be extracted by acquiring the Company.

Since we view Edgewell as a likely acquisition target, we have reviewed major M&A transactions in recent years within the household & personal care industry. Considering Edgewell's strong/challenger position in several attractive categories, we believe if the Company were to be acquired, it would have to be acquired at a premium to average historical transaction multiple/s. We suggest that depending on the level of synergies the acquirer can extract from the acquisition; they might pay at least +10% to +20% premium to the average transaction multiple/s. This suggests an EBITDA multiple of 16.6x-18.1x. Currently, Edgewell is trading below the average historical transaction multiple/s - EV/EBITDA (13.4x vs 15.1x) and EV/Sales (2.5x vs 3.4x).

Top-line synergistic acquirers: Colgate Palmolive, Unilever, SCA, J&J, Reckitt, Henkel and Beiersdorf.
Cost synergistic acquirers: Beiersdorf, Kao, Henkel and Colgate Palmolive.

WEAK RECENT RESULTS & IMPATIENCE PRESENT OPPORTUNITY

The weakening of developing market economies and the depreciation of currencies around the world versus the US Dollar saw investors exit US domiciled multinationals in 2015, including Edgewell. Investors have also been disappointed with Edgewell's below-expectation results and the lack of M&A news since the Separation. The share price has declined ~24% between July 2015 and October 2016. We slowly established a position following the company's separation in July 2015, at an average cost of US$85.00 (as at 31 October, 2016)

INVESTMENT THESIS - SUMMARY

Disappointing short-term results have caused Edgewell shares to decline since it spun off its battery business in June 2015.There are doubts among investors whether the Company will be able to defend its market position in its key wet shave business with attacks from both sides – Top-end from P&G's Gillette and the low-end from the likes of Dollar Shave Club and Harry's. Unilever's US$1B acquisition of Dollar Shave Club creates a further complication as to whether the Company will be acquired by one of the larger industry players in the near term. We believe Edgewell will need to participate in the DTC market sooner rather than later. This fast-growing market (currently 8% of US market) is too important to not participate in now. We are concerned that Management is showing complacency and a lack of urgency on this front.

Edgewell is a relatively small company (Market Cap, US$4.5B) in a highly competitive global personal care industry. Its portfolio of strong brands in attractive categories makes it a likely acquisition target for larger players in the industry. We continue to believe that the Company will ultimately be acquired at a premium over average transaction multiples – We hypothesis potential suitors are Beiersdorf and Colgate Palmolive. We also hypothesise the lack of M&A news maybe due to management prudence around the two-year restriction (1/7/2015 to 1/7/2017) by the IRS to preserve the tax-free treatment of the Separation.

Irrespective of M&A, we believe the Company's strong free cash flow conversion rate will provide a foundation for the Company to expand (in growth categories and internationally), and to create long-term value through opportunistic share repurchase. International expansion opportunities are significant over time as the Company is currently only in 50 markets globally.

Edgewell is currently trading at a meaningful discount to our estimated takeover target price range of US$90.87 to US$113.00 which offers potential upside of +20% to +49% (based the Company's share price of US$75.74 as at 27 October, 2016).

For an in-depth appraisal of our investment in Edgewell please refer to our full presentation which can be viewed at: http://www.elevationcapital.co.nz/edgewell/

This summary report was written in November, 2016.