20 April 2017

2017 HALF YEAR RESULTS

SUSTAINED ORGANIC GROWTH DELIVERS 15%[1] PROFIT INCREASE

- Net profit after tax (NPAT) of $29.1m; an underlying increase of 15% on the prior corresponding period (pcp)
- Earnings before interest and tax (EBIT) of $48.6m, up 9% on the pcp
- Underlying return on capital employed (ROCE) increased to 15.23%, up 21.7% on the pcp and underlying return on equity (ROE) increased to 10.56%, up 10.7% on the pcp
- Priceline/Priceline Pharmacy network grew to 450 stores, with 7.2% total retail network sales[2] growth and comparable retail store sales growth up 0.4%
- Pharmacy distribution continues to perform to expectations
- Fully franked interim dividend of 3.5 cents per share, up 40% on the pcp

Australian Pharmaceutical Industries Limited (API) today reported NPAT of $29.1m for the six months to 28 February 2017, an underlying increase of 15% on the pcp. Reported NPAT was 27.2% up on the pcp, which included a $2.4m loss on the sale of API's shareholding in CH2 in the pcp.

"We have increased NPAT and returns to shareholders through organic growth in our Priceline Pharmacy network, despite the slower retail conditions in 2017, while generating cash and sustainable returns through our pharmacy distribution business," API's CEO and Managing Director, Richard Vincent said.

Return on equity had a compound annual growth rate of 19.1% since 1H15 and return on capital employed had a 13.0% increase in the same period. Working capital improved on all key metrics on the pcp and inventory returned to normal levels for the seasonal trading period. Reported net debt decreased $84.4m from the same time last year and is expected to again decrease in the second half.

"We are focussed on increasing shareholder value and we still forecast that we will be cash positive by the calendar year end," Mr Vincent said.

Priceline Pharmacy network growth

The Priceline Pharmacy network expanded to 450 stores, an increase of 25 stores during the last twelve months. Total retail network register sales were up by 7.2% which included strong growth in dispensary, while comparable store sales were up 0.4%.

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[1] This release should be read in conjunction with the Appendix 4D or the 1H17 Results Presentation lodged with the ASX. Underlying results are non-IRFS measures that API believes are appropriate to understanding its business and financial performance following impairment charges and/or associates' effects in the financial periods under review.

[2] This figure refers to retail sales recorded at the store point of sale, including dispensary sales. This is company sourced information and is not recorded in the Appendix 4D.

The brand also increased its market share in the total health and beauty sector. Market share was gained predominantly in dispensary, skincare, OTC health and colour cosmetic segments.

"The strength of the Priceline Pharmacy brand continues to attract independent pharmacists to our network and the pipeline of potential partners remains robust. Despite consumer sentiment being challenging for the foreseeable future and competition increasing, the strength of our combined marketing assets, particularly our Sister Club loyalty program which now has 6.7 million members, and our unrivalled health and beauty range should enable us to maintain and grow our share."

"We continue to lead the sector in bringing a unique, new and exclusive product offering to market across our categories. For example we've reinvigorated categories, such as haircare where our market growth during the last 12 months was 8.4% in an otherwise flat category," Mr Vincent said.

Pharmacy distribution performance remains strong

API's pharmacy distribution revenues grew by 18.0%, reflecting the effect of the new high-value hepatitis C medicines. When normalised to remove the effect of the introduction of the hepatitis C medicines and PBS reform, underlying growth was 5.9%.

"The pharmacy distribution business performed very well in what remain testing conditions. Ongoing growth in accounts in Western Australia is behind a new distribution centre in Perth that will open in June at a capex cost of $5 million. This will result in more timely and efficient stock management for both our independent pharmacy customers and our Priceline Pharmacy franchise partners," Mr Vincent said.

API remains active in the Review of Pharmacy Remuneration and Regulation through its membership of the National Pharmaceutical Services Association and is confident of a collaborative outcome that is sustainable for the industry.

API's New Zealand business has experienced a short term decline in earnings due to the reduced demand in contract manufacturing for Australian businesses from the changes in scheduling and PBS listing of key products. Demand is expected to return during the second half with new contracts secured early in the 2017 calendar year.

Dividend

API's Board has declared a fully franked interim dividend of 3.5 cents per share, up 40% on the pcp. The record date for the dividend is 5 May 2017 and the payment date is 2 June 2017.

Outlook

API expects its Priceline Pharmacy network to expand by at least 20 stores during the current financial year to 462. API also expects to generate further operational improvements due to major capital investments made in recent years.

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"We anticipate that consumer sentiment is likely to remain more challenging than in previous years, however we remain confident in our retail store pipeline and in reducing operational costs as a consequence of our prior capital investments. API expects another year of record full year net profit after tax, a minimum 10% up on FY16, assuming the current trading conditions persist," said Mr Vincent.

Ends

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