

AUSTRALIAN PHARMACEUTICAL INDUSTRIES

2017 FULL YEAR RESULTS

THURSDAY 19 OCTOBER 2017

Important Notice

The material in this presentation is of general information about API's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. Nothing in this presentation should be construed as a recommendation or forecast by API or an offer to sell or a solicitation to buy or sell shares. It does not take into account the investment objectives, financial situation or needs of a particular investor. These should be considered with or without professional advice when deciding if an investment is appropriate.

This presentation contains certain non-IFRS measures that API believes are relevant and appropriate for the understanding of the business. Refer to Appendix 1 for further information.

GROUP PERFORMANCE

RICHARD VINCENT

CEO & MANAGING DIRECTOR

FY17 Overview

BUSINESS FOCUS

- Retail and Pharmacy business retain leading market positions
- Management priorities are to deliver:
 - Strong customer propositions that are evolving in a changing market
 - Profitable organic growth from core assets
 - Sustained improvements on balance sheet
- Prudent, scalable acquisitions will be assessed




Financial Highlights

\$4,061m
Revenue

5.8%

16.9%
Underlying¹
ROCE

140bps

\$120.5m
Underlying¹
EBITDA

6.1%

9.8%
Underlying¹
ROE

20bps

\$54.2m
Underlying¹
NPAT

5.4%

11.1¢
Underlying¹
EPS

5.7%

CONTINUED GROWTH ACHIEVED FROM CORE ASSETS

- Revenue and NPAT increase
 - Priceline Pharmacy network expansion
 - Growth in Pharmacy Distribution position
 - Shareholder returns growth
-

¹Refer Appendix 1 for definition

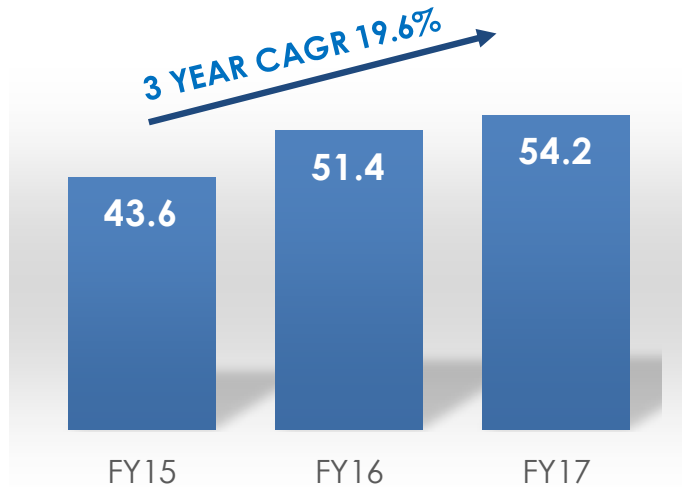
FINANCIAL RESULTS

PETER MENDO

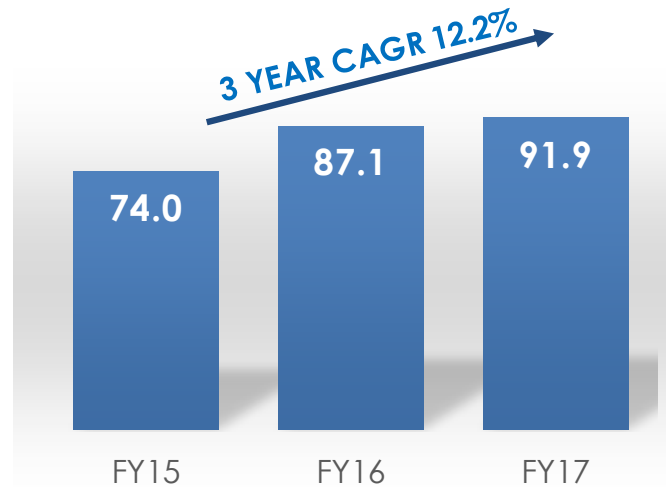
CHIEF FINANCIAL OFFICER

Financial Overview

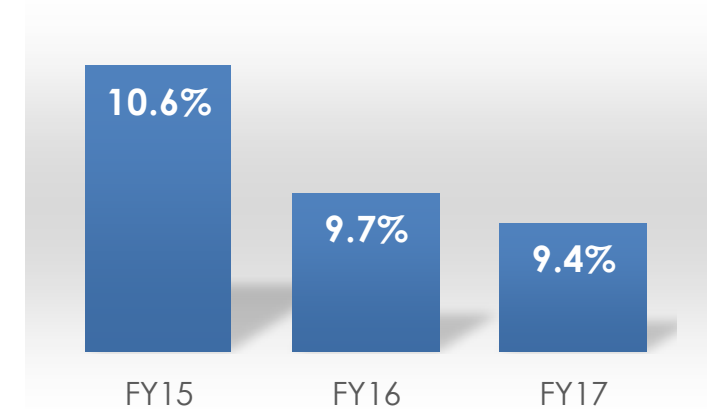
Underlying¹ NPAT \$m



Underlying¹ EBIT \$m



CODB² (% of revenue)



IMPROVED FINANCIAL POSITION

- Underlying NPAT and EBIT increased, with CAGR over 12% since FY14
- Underlying earnings per share up 5.7% to 11.1c
- CODB as a percentage of revenue improved due to ongoing disciplined management
- Operating results reflect value extracted from infrastructure investments
- Further ability to leverage existing assets

¹Refer to Appendix 1 for definition; ²Cost of doing business excludes depreciation

Working Capital

| Summary | FY16 | 1H17 | FY17 |
|----------------------------|------------|------------|------------|
| Trade Receivables | 689 | 630 | 682 |
| Inventories | 414 | 363 | 399 |
| Trade Payables | 799 | 653 | 805 |
| Net Working Capital | 304 | 340 | 276 |

| Key Metrics | FY16 | 1H17 | FY17 |
|---------------------------------|-------------|-------------|-------------|
| Trade Debtors Days | 39.5 | 33.9 | 40.6 |
| Inventory Days | 41.0 | 33.7 | 37.2 |
| Trade Payables Days | 56.6 | 40.6 | 55.8 |
| Net Working Capital Days | 23.9 | 26.9 | 22.0 |

WORKING CAPITAL IMPROVED

- Inventory levels show improvement from pcp reflecting efficiency initiatives
- Cash conversion improved 1.9 days on pcp, at optimal level given seasonal timing
- Results achieved despite Hep C volume negatively impacting the result

Cashflow & Debt

| Key Metrics | FY16 | 1H17 | FY17 |
|--|------|------|--------|
| Reported net debt \$m | 25.9 | 57.4 | (7.2) |
| Net debt [#] /(net debt + equity) | 4.6% | 9.5% | (1.3)% |
| Net debt [#] /EBIT | 0.3x | 1.2x | (0.1)x |
| EBIT/interest | 5.5x | 7.6x | 6.9x |

DEBT PROGRESS AHEAD OF EXPECTATIONS

- Reported Net Cash positive \$7.2m
- Debt metrics continue to improve
- Finance costs reduced \$2.9m year-on-year
- Focus on cash management continues

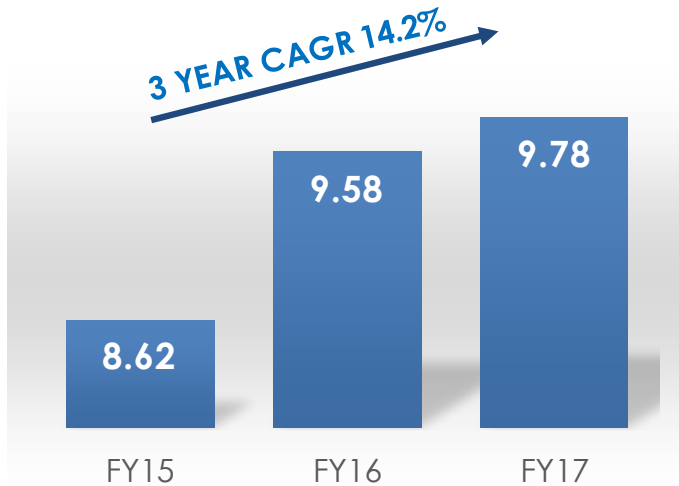
| A\$m | FY16 | 1H17 | FY17 |
|--|-------------|-------------|--------------|
| Cash generated from operations | 96.6 | 21.1 | 129.8 |
| Net capital expenditure | (13.0) | (12.4) | (27.8) |
| Free cash | 83.6 | 8.7 | 102.0 |
| Debt reduction including leasing | (48.4) | 42.4 | (18.8) |
| Dividend | (24.4) | (17.1) | (34.3) |
| Net movement in cash before interest & tax* | 10.8 | 34.0 | 48.9 |

[#] Net debt includes annual insurance premium funding and finance leasing liabilities

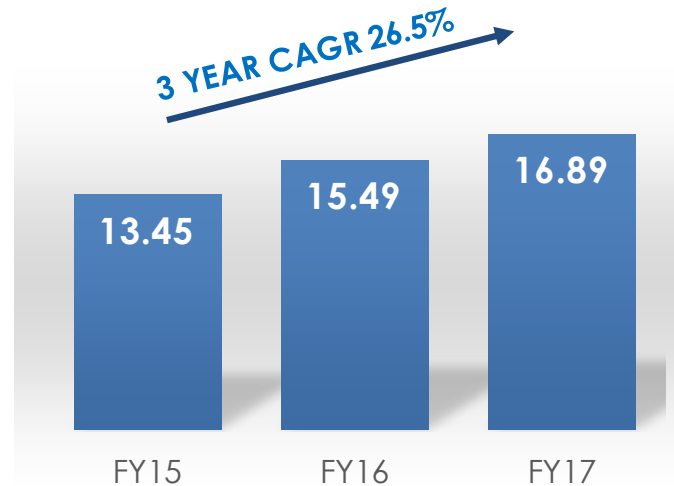
^{*} As per the 4E Consolidated Statement of Cash Flows, excluding interest and tax

Capital Management

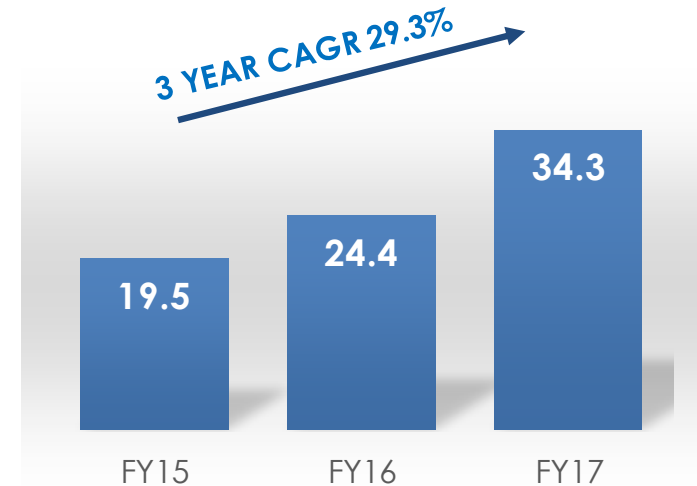
Underlying¹ ROE%



Underlying¹ ROCE%



Dividend paid \$'m



RETURNS TO SHAREHOLDERS CONTINUE TO GROW

- Achieved Net Debt position ahead of schedule
- Fully franked dividend paid CAGR 29.3% since FY14
- Fully franked dividend at 65% payout ratio provides options for future operations
- Dividend yield of 4.8% for FY17*

¹Refer to Appendix 1 for definitions ; *Fully franked, based on share price at 31 August 2017

Capital Management

WORKING CAPITAL

- Optimised level given seasonal factors
- Seasonal fluctuations will remain at the half year
- Ongoing plans for further inventory improvement

CAPEX

- Total spend at \$26.5m primarily stay in business including new and refurbishing stores
- Capex FY18 to hold at current levels
- Caters for customer-focussed investments such as Sister Club

DEBT AND CAPITAL MANAGEMENT

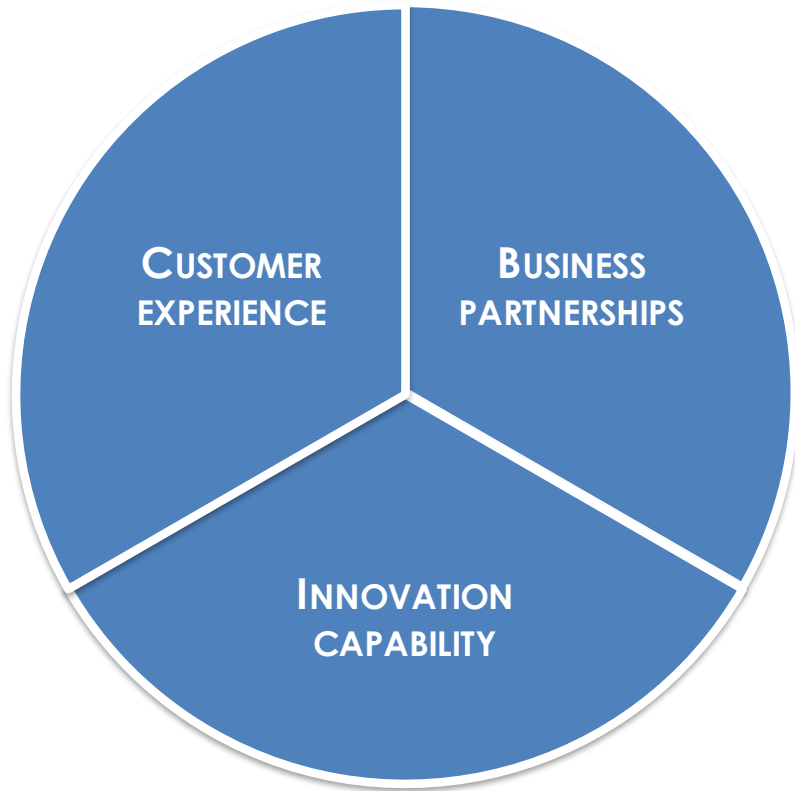
- Continue to use debt during the year in normal course of business
- Debt facilities well structured for flexibility
- Dividend payout ratio at 65%

OPERATIONAL SUMMARY

RICHARD VINCENT

CEO & MANAGING DIRECTOR

Operating Business Focus



CUSTOMER EXPERIENCE

- Amplify differences through product range, training, services and personalisation to remain a preferred choice
- More rapid decisions to meet changing customer needs to improve their experience

BUSINESS PARTNERSHIPS

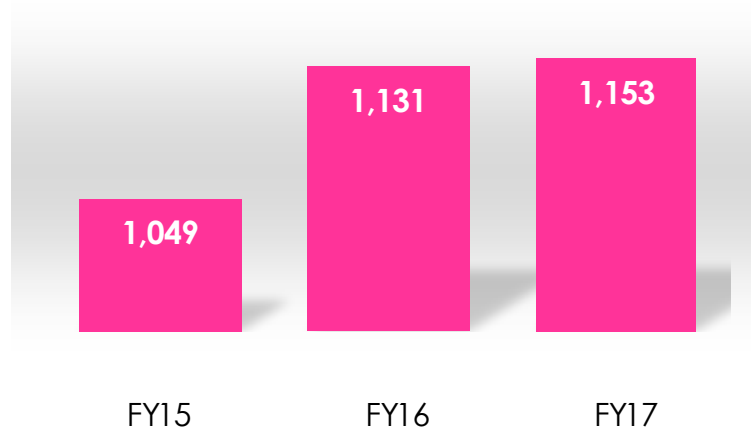
- Simplify B2B interaction to increase efficiency and time
- Build on system capability and remove “red tape”
- Dual profitability is a gate to ongoing growth

INNOVATION CAPABILITY

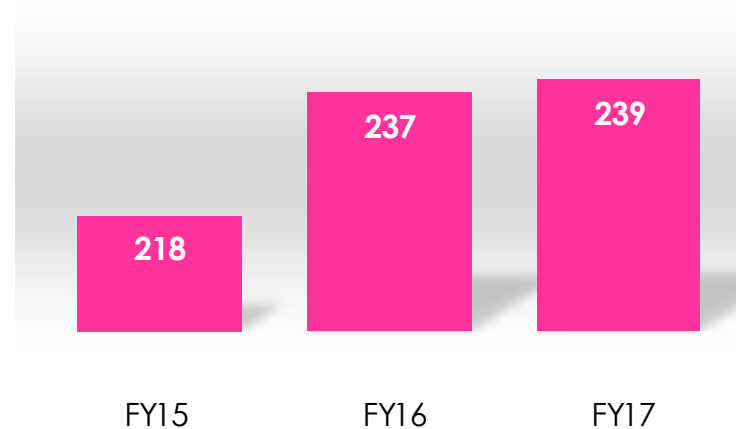
- Current assets provide growth options and requires continual review and novel thinking to extract full benefits more quickly

Retail Results

Retail Register Revenue \$m



Retail GP \$m



GROWTH CONTINUES IN TOUGHER MARKET CONDITIONS

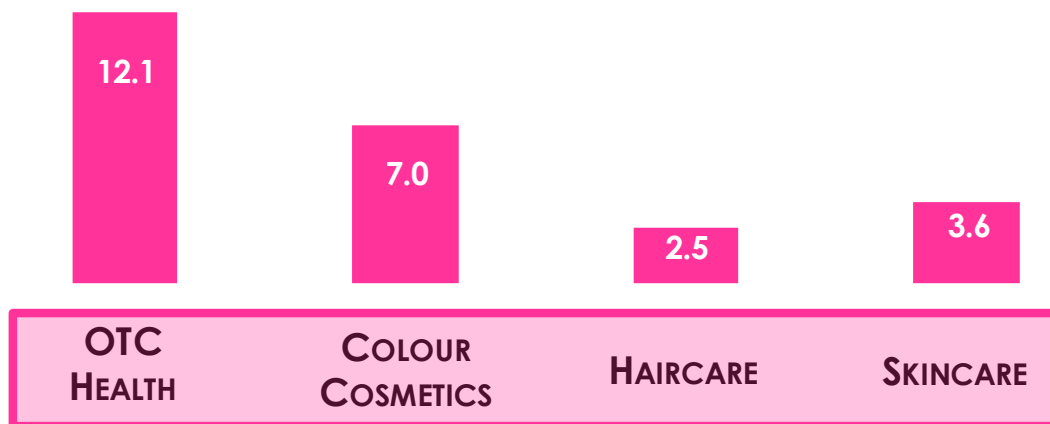
- 💖 Total Priceline Pharmacy network* sales up 5% to \$2.1b
- 💖 Total Retail# network sales up 2.0% (LFL store sales down 0.4%)
- 💖 GP reflects sales activity to address retail climate
- 💖 462 stores met 20 new stores target for FY17
- 💖 Sister Club members now up to 7.1m

* All retail sales, including dispensary recorded at register

Retail network sales at register stated on a financial year basis but excludes dispensary sales. Retail sales made by franchise stores do not form part of API's financial results. See Appendix 4E for recorded segment revenue.

Retail Results

CATEGORY MAT GROWTH¹ %



OTC Health strong at 12.1% growth



Priceline MAT result for Health & Beauty market at +0.2%

| CAPITALISE ON BEST PERFORMERS | NEED TO IMPROVE CONTRIBUTION |
|-------------------------------|------------------------------|
| Dispensary | Fragrance |
| OTC Health | Vitamins |
| Colour Cosmetics | |
| Skincare | |

¹AC Nielsen to 20/8/17

INCREASED SERVICE OFFERING



BEAUTY SERVICES



HEALTH SERVICES

GET Race Ready WITH PRICELINE PHARMACY

PRICELINE PHARMACY PROUD SPONSOR OF 2017 BMW Caulfield Cup CARNIVAL

Our range of in store services include:

- New makeup techniques
- Personal product recommendations
- Correct brow colouring
- Advice on the latest beauty trends
- Foundation colour matching
- Expert skincare consultations

Book your *Free* consultation in store or online at priceline.com.au/beautyservices

priceline pharmacy

Customer Experience

DIGITAL TRANSFORMATION INVESTMENT FOR FUTURE GROWTH

Increasing investment in technology of the digital platform that will enable a singular customer experience

- Increased integration between all platforms – web, eCommerce, stores, database, social media
- Improved analytics capability and communication flexibility

SISTER CLUB RELAUNCHED IN 2017

2017 Phase One

- Tiered memberships based on loyalty
- Exclusive offers for members
- Integrated system for stores & customers

2018-19 Phase Two

- Automated eDM capability
- More flexibility to respond to market
- Personalisation of promotional offers



**More Rewards
More Savings
More Freebies**

Now more rewarding than ever!

| | SISTER CLUB WHEN YOU EARN UP TO 180 POINTS PER QUARTER | DIAMOND WHEN YOU EARN 150-350 POINTS PER QUARTER | PINK DIAMOND WHEN YOU EARN 400 POINTS OR MORE PER QUARTER |
|---------------------------------------|--|--|---|
| REWARDS | | | |
| • QUARTERLY REWARD | ✓ | ✓ | ✓ |
| • BIRTHDAY REWARD | ✓ | ✓ | ✓ |
| • BEAUTY ADVISOR BONUS NEW | | ✓ | ✓ |
| SAVINGS | | | |
| • EXCLUSIVE PERKS | ✓ | ✓ | ✓ |
| • SISTER CLUB SECRET SALES NEW | ✓ | ✓ | ✓ |
| • HEALTH & BEAUTY OFFERS NEW | | ✓ | ✓ |
| FREEBIES | | | |
| • EXCLUSIVE EVENTS | ✓ | ✓ | ✓ |
| • COMPETITIONS | ✓ | ✓ | ✓ |
| • SEASONAL GIFT NEW | | ✓ | ✓ |

priceline pharmacy
priceline.com.au

Partner Experience

IMPROVED PRODUCTIVITY

- 📈 In-stock position improved 220 basis points on last year
- 📈 A-lines in-stock improved 300 basis points
- 📈 OneChannel delivery system improved in-stock
- 📈 Decrease in average weeks cover with improved stock turns overall

FRANCHISE SUSTAINABILITY

- 📈 Retail register gross margin % in-line with prior year
- 📈 Transactions up 5.6%
- 📈 Dispensary volume growth +9.1% with LFL at +2.0%

FRANCHISE SATISFACTION (NPS)

Priceline 2017 →
FRI Benchmark →

Delighted

Happy

Ambivalent

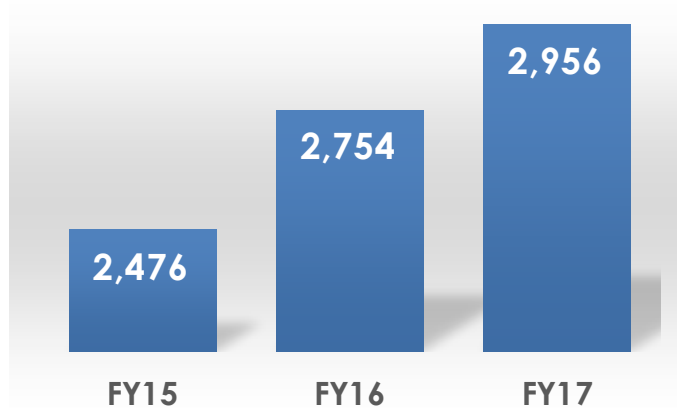
Unhappy

Disparaging

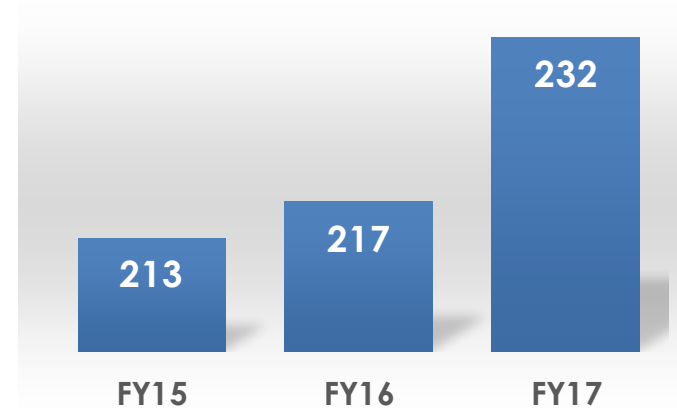


Pharmacy Distribution Results

Distribution Revenue \$m



Distribution GP \$m



CORE BUSINESS ACHIEVES REAL GROWTH

- Growth reflects strong value proposition to the market
- Hep C medications revenue growth of \$138.9m
- Investments have sustained steady growth profile despite new competition
- Underlying Pharmacy Distribution revenue growth* 7.5% excluding Hep C and PBS Reforms
- PBS Reforms continue to be closely managed
- Actively involved in the Pharmacy Review into Remuneration and Regulation

* Refer Appendix 1 Definitions



New Zealand

- Codeine rescheduling required new sales activity to establish stronger manufacturing pipeline during the year
- OTC focus has seen a spike in manufacturing contracts for key Australian clients in cold & flu and analgesic products
- Promising developments in small-scale exports outside Australia
- Expect stronger second half as full value of new contracts are realised for winter/spring 2018



Only Good®



HEALTH BASICS®
MADE OF NEW ZEALAND



FY18 Outlook

CORE ASSETS EXPECTED TO GROW

- Clear focus on operational performance
- Expect that current market conditions will continue in regards to the economy and uncertain consumer sentiment
- Pharmacy Distribution expected to deliver steady performance
- Priceline Pharmacy store network growth will continue with sales growth moderated in the near term
- Balance sheet strength and cash generation provides flexibility



Appendix 1 ASIC

ASIC Regulatory Guide 230 Disclosing non-IFRS financial information

In December 2011 ASIC issued Regulatory Guide 230. To comply with this Guide, Australian Pharmaceutical Industries Limited is required to make a clear statement about the non-IFRS information included in the Profit announcement and Full Year presentation for the period ending 31 August 2017.

In addition to statutory report amounts, the following non-IFRS measures are used by management and the directors as the primary measures of assessing financial performance of the Group and Individual Segments:

- Underlying Earnings before interest tax (EBIT)
- Underlying Earnings before interest, tax, depreciation, amortisation (EBITDA)
- Free cash
- Comparable Store Growth
- Underlying Return on capital employed (ROCE)
- Underlying Return on Equity (ROE)
- Pharmacy Growth
- Underlying Pharmacy Revenue Growth
- Retail register sales
- Underlying NPAT
- Underlying Earnings per share

The directors consider that these performance measures are appropriate for the purpose of presenting meaningful information on the underlying drivers of the continuing business.

Many of the measures used are common practice in the industry within which Australian Pharmaceutical Industries Limited operates. The Profit Announcement and Full Year presentation has not been audited or reviewed in accordance with Australian Auditing Standards.

Appendix 1 Definitions

- EBITDA - Result from operating activities before Depreciation and Amortisation
- EBIT – Result from operating activities
- Underlying EBIT – EBIT calculated as above without including one-off impairment or other one-off charges
- Underlying NPAT – NPAT calculated with the same exceptions as underlying EBIT
- Free Cash – Cash generated from operations less capital expenditure. It does not include financing costs and tax paid
- Comparable Store Growth - Sales performance compared to last period for stores trading in the retail network greater than one year
- Interest Cover – Result from operating activities divided by net financing costs
- Net Debt or Net Cash – Borrowings less cash on hand
- Underlying Return on Capital Employed (ROCE) – Underlying EBIT/Total Capital Employed
- Underlying Return on equity (ROE) – Underlying NPAT/Equity
- Retail network – franchise and company stores in the Priceline/Priceline Pharmacy brand
- Retail register sales – Sales recorded at the register of all network stores which excludes dispensary sales. Register sales made by franchisees do not form part of the result of the consolidated entity
- Underlying Pharmacy Revenue growth – revenue computed on volumes before PBS price changes that occur on 1 April and 1 October each year

Appendix 2 – 2017 Income Statement

| \$M AUD | FY16 | FY17 | Change |
|--|---------|---------|---------|
| Revenue | 3,840.0 | 4,061.0 | 5.8% |
| Gross Profit | 477.9 | 493.4 | 3.2% |
| Less Operating Costs net of Other Income | 390.8 | 404.1 | 3.4% |
| EBIT | 87.1 | 89.3 | 2.5% |
| Less Net Financing Costs | 15.8 | 12.9 | (18.5%) |
| Less Associates | 2.4 | - | - |
| Less Tax Expense | 17.2 | 24.0 | 39.5% |
| NPAT pre adjustment | 51.7 | 52.4 | 1.4% |
| Add back CH2 | 2.4 | - | - |
| Less tax adjustment to prior year debtor provision | 2.7 | - | - |
| Add back Due Diligence costs | - | 1.8 | - |
| Underlying NPAT | 51.4 | 54.2 | 5.4% |

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