19 April 2018

2018 HALF YEAR RESULTS

API RESULT SLIGHTLY AHEAD OF REVISED GUIDANCE

PHARMACY DISTRIBUTION PERFORMS STRONGLY

- Underlying net profit after tax (NPAT) of $26.8m slightly ahead of revised guidance; a decrease of 8% on the prior corresponding period (pcp)
- Underlying earnings before interest and tax (EBIT) of $44.6m, down 8% on the pcp
- Underlying return on capital employed (ROCE) increased to 15.41%, from 15.23% on the pcp and underlying return on equity (ROE)decreased to 9.22%, from 10.56% on the pcp
- Pharmacy Distribution continued to perform well with underlying sales growth of 9.8%
- Priceline/Priceline Pharmacy total network sales[1] growth of 2.1% with 466 stores, and comparable retail store sales decline of 1.7%
- Fully franked interim dividend of 3.5 cents per share, on par with the pcp

Australian Pharmaceutical Industries Limited (API) today announced underlying NPAT of $26.8m for the six months to 28 February 2018, 8% less than the pcp. Reported NPAT was $24.9m, down 14.4%.

“We have delivered underlying NPAT slightly ahead of the outlook provided on 22 January 2018. We’ve seen total network sales for Priceline Pharmacy increase on the same period from last year, although like-for-like sales have remained negative we’ve also held overall health and beauty market share steady during this time.

“Our Pharmacy Distribution business continued to perform strongly. When the impact of the PBS Reforms and hepatitis C medicines was removed, we saw underlying sales growth of 9.8%, which is particularly pleasing given the impact of some of the more profitable PBS medicines now being distributed exclusively outside the CSO wholesaling system.

“Reported net debt was $32.3m lower than the same time last year, at $25.1m. Our cash conversion cycle continues to be well-managed and saw an improvement of more than 10% on the pcp. Working capital remained strong despite inventory levels being up due to timing of sales events and changes in PBS volumes in February,” API’s CEO and Managing Director, Richard Vincent said.

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[1] This figure refers to total network 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.

This release should be read in conjunction with the Appendix 4D and the 1H18 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, one-off charges and/or associates’ effects in the financial periods under review.

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Priceline Pharmacy network growth

The Priceline Pharmacy total network sales[1] growth was up 2.1% and expanded to 466 stores, an increase of 16 stores during the last twelve months. Retail sales saw growth in dispensary and OTC health products being offset by declines in the more discretionary beauty products, while comparable store sales (excluding dispensary) were down 1.7%.

"We have refined our tactical sales activity, which is now more targeted and responsive to changes in the increasingly competitive market. We continue to develop exciting new exclusive products and range extensions in our beauty offering, and we intend to make further substantive evolutions in this offer to ensure we have the most relevant offer for our customers.

"Despite the combination of consumer sentiment being challenging for the foreseeable future and increased competition, the strength of our combined marketing assets, particularly our Sister Club loyalty program, continues to be the primary source of sales growth. We are seeing positive results from a campaign targeted at lapsed members and our major priority is to progressively implement the 2nd phase of our digital transformation program, which will allow us to provide more immediate and more personalised offers to each and every one of our Sister Club members.

"The strength of the Priceline Pharmacy brand continues to attract independent pharmacists to our network and the pipeline of potential partners remains robust. As we signalled at both our FY17 results and at the AGM, network store growth has slowed slightly as we move to address unrealistic rental demands for ourselves and franchise partners. We plan to continue this approach where landlords' demands do not reflect the reality of the persisting retail trading environment and early positive progress should continue in the 2nd half," Mr Vincent said.

Pharmacy Distribution performance remains strong

API's Pharmacy Distribution underlying revenues grew by 9.8%, against a backdrop of increased market competition.

"The Pharmacy Distribution business performed very well in what remain testing conditions. We continue to consolidate market share, while holding margins, as our prior investments in our distribution centre (DC) network result in more timely and efficient stock management. Independent pharmacists are also benefiting from our investment in pharmacy and business advice services that allow them to upskill their services and grow their profitability," Mr Vincent said.

API and its partners in the National Pharmaceutical Services Association continue to urge the Federal Health Minister to introduce measures that allow the Community Service Obligation (CSO) distributors to deliver on the Government's National Medicines Policy to ensure equal access to PBS medicines for all Australians.

"We've seen exclusive distribution of PBS medicines in the last period further undermining the intent of the CSO, so remedial regulatory action is necessary," Mr Vincent said.

Consumer Brands (NZ) business performance

API said its Consumer Brands business has improved this half with a return to earnings growth.

"We've made investments in a stronger product portfolio which has resulted in securing a number of substantial, long-term contracts for retailers and distributors in Australia. As such, I expect to see a stronger bottom line performance in the 2nd half, with an even stronger contribution in the following year," Mr Vincent said.

Dividend

API's Board has declared a fully franked interim dividend of 3.5 cents per share, in line with the pcp. This has seen the payout ratio rise to 69%. The record date for the dividend is 4 May 2018 and the payment date is 1 June 2018.

Outlook

API expects its Priceline Pharmacy network to further expand during the year and to generate further cost-out improvements due to major capital investments made in recent years.

"We anticipate that current consumer sentiment will remain, but we have a strong customer offering backed with a sales-focussed marketing program and remain confident in our retail store pipeline. Our prior capital investments provide the ability to reduce operational costs in the 2nd half. As a consequence, API expects the FY18 underlying result to be marginally above FY17, assuming the current trading conditions do not deteriorate further," said Mr Vincent.

Ends

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