18 OCTOBER 2018

# 2018 FULL YEAR RESULTS ANNOUNCEMENT
# API DELIVERS ON GUIDANCE, INCREASES DIVIDEND

- Underlying[1] net profit after tax (NPAT) of $54.7m, up 0.9% on the prior corresponding period (pcp)
- Underlying earnings before interest and tax (EBIT) of $90.5m, down 1.5% on the pcp
- A final fully franked dividend of 4.0 cents per share, up 14.3% on pcp
- Underlying return on equity rose 51 bps to 10.29%, from 9.78%. Underlying earnings per share held at 11.1 cents. Underlying return on capital employed was 35 bps lower at 16.54%, from 16.89%
- Ongoing cost reductions saw underlying CODB improve 10 bps to 10.3%
- Priceline Pharmacy total network sales[2] grew 2.1% to more than $2.1bn
- Pharmacy Distribution achieved underlying sales growth of 6.4%
- Consumer Brands turned around performance with EBIT contribution up $2.1m
- Completion of stage 1 of Clearskincare acquisition at end of July

Australian Pharmaceutical Industries Limited (API) today reported underlying[1] NPAT of $54.7m for the twelve months ended 31 August 2018, up 0.9% on the previous year. Reported NPAT for the year was $48.2m, which included the impact of $6.6m in one-off costs associated with the Clearskincare acquisition ($4.1m) and business restructuring to lower the ongoing cost base.

Total revenue for the period was down slightly to $4.0bn, reflecting a drop in demand for Hepatitis C medicines of approximately $155m. Excluding Hepatitis C medicines revenue increased by 3.3% on the pcp. Underlying EBITDA was down 1.5% to $118.7m, primarily due to the effect of an increased number of price reduction cycles in the PBS during FY18 and exclusive direct distribution arrangements.

The company continues to maintain comfortable net debt levels and lower financing costs, strong cash flow and working capital. Reported net debt at the end of the year was $55.9m, excluding the acquisition of Clearskincare it would have been net cash $5.8m. Further improvements in working capital were achieved with the cash conversion cycle improved by a further 1.7 days. The underlying return on equity was up 51 basis points to 10.29%.

"The 2018 financial year was pivotal in managing the existing business through difficult conditions and in establishing a broader growth portfolio for the company," API CEO and Managing Director Richard Vincent said. "We are confident that we have a highly complementary group of assets which will grow revenue and earnings. This confidence in future growth prospects is reinforced by the Board's decision to increase the final dividend payment to 4.0 cents per share, up from 3.5 cents per share last year."

"Across the company we have been disciplined around costs, executing plans to improve performance while building growth options. In addition we retain the financial strength to deliver on the growth strategies in all parts of the business," he said.

**Priceline Pharmacy performance**

Overall Priceline Pharmacy total network sales[2] for the period were up 2.1% to $2.11bn with total network[2] like-for-like sales down 0.2%. The trend in like-for-like store sales[3], excluding dispensary, improved by 60 basis points from the first half and were down 1.1% for the full year. The store network grew by net 13 stores, up to 475 stores.

"Comparable store sales, while negative, are improving in trend terms. This reflects the management team's initiatives over the past six months," Mr Vincent said. "There has been a focus on better management of promotional sales, stock availability and margin growth. Overall health and beauty market share was flat with gains in health categories offset by a weaker beauty result."

"While trading conditions were tough we have performed better than the first half," Mr Vincent said. "We've taken decisions to close some company-owned stores where landlord expectations were not realistic, but taking those decisions means we are now negotiating leases on better terms."

"We are growing the network, now with a greater focus on the quality of our new stores, rather than the number of stores opened," he said. "Our intent is to add larger stores that will deliver greater economic benefit."

The brand has evolved its total offer with a new marketing program, more targeted Sister Club promotions and an adjustment in its product offer to meet changing customer demands by accentuating its core mass market offer with exclusives and selected prestige brands in the beauty range.

"We know that customers want more choice from the well-known mass market brands through to prestige in one location, which we've initiated through bringing in the Napoleon Perdis brand last month in that process," Mr Vincent said.

"Our Sister Club keeps growing and is one of the most valued and generous programs in Australia. We've commenced more exclusive promotions for our Sister Club members which have been successful. In 2019 we expect to trial the first phase of a 'click and collect' offer for which Sister Club will be a crucial element," he said.

Store growth is expected to continue with franchise partner sentiment making further gains from the prior year due to the leadership making tangible improvements that improved overall satisfaction.

**Pharmacy Distribution**

API's pharmacy distribution revenues were slightly lower at $2.9bn, however excluding Hepatitis C medicines and the effect of PBS changes, underlying revenue was up 6.4%. A combination of PBS changes and exclusive direct distribution removed more than $10m in gross profit compared with the prior year.

"The Pharmacy Distribution business delivered a solid result particularly when you consider price deflation and the margin effect in the PBS," Mr Vincent said. "The business was able to offset much of the downside from PBS Reforms and exclusive direct distribution through revenue growth, without changes in trading terms with pharmacies. We're awaiting the Community Service Obligation (CSO) review before making any decisions on future trading arrangements."

"Looking after independent pharmacists is critical to our success," Mr Vincent said. "We have made substantial new investments in our independent brands and pharmacy services – such as Soul Pattinson, Pharmacist Advice and Club Premium – so that we're confident this will see renewed growth in the coming 12 months."

He added that the current services to independent pharmacies may be complemented in the future by small bolt-on acquisitions in value-adding services that would help offset reliance on the PBS.

"We expect the Federal Department of Health to report on its review of the CSO in the coming weeks. We have engaged in that process and believe that the value of the CSO is well recognised and understood by the government.

"We're pleased with the open engagement we've had with the Department and the Health Minister and we're confident the issues are understood so that the principles of the National Medicines Policy will be endorsed by the review process," Mr. Vincent said.

## Consumer Brands

API's Consumer Brands business had a very strong year, with revenue up 17% to $59.3m. EBIT rose $2.1m to $2.8m, up from $0.7m in the pcp. Further growth is expected to improve EBIT over the next 12 months.

"The Consumer Brands business is a growth portfolio. Most of the recent improvement in revenue has come from Australian over-the-counter health products and we have become a major private label supplier to the industry," Mr Vincent said.

"We expect to broaden our portfolio of high quality, low cost products through a mix of manufacturing products ourselves and improving our network of off-shore suppliers which will spur further scope for growth."

## Clearskincare

Stage 1 of the Clearskincare acquisition is now complete and on track to achieve our expectations. API has commenced leveraging benefits into the Clearskincare property portfolio, franchise development and marketing initiatives.

"We are starting to see benefits of API and Clearskincare coming together. For example, our Sister Club members have already added thousands of new leads to Clearskincare," Mr Vincent said.

"We will shortly be opening our first new clinic in Melbourne and expect to open more in the second quarter of the fiscal year."

## Dividend payment

The final fully franked dividend for the 2018 financial year was 4.0 cents per share, up 14.3% on pcp, taking the full year fully franked dividends to 7.5 cents per share. The dividend payout ratio has increased again and is now 77%. The record date for the dividend is 9 November 2018 and the payment date is 7 December 2018.

## Outlook[4]

API expects earnings growth in FY19 and Mr Vincent said he was confident that the business was positioned with the right assets to achieve that.

"We are confident in the prospects of our different, complementary businesses and we have the management team and financial strength to accelerate the Clearskincare network, expand the scale of Consumer Brands, and develop our Priceline Pharmacy offer and the services to our independent network.

"While still only early in the year, retail trading in FY19 is in line with our internal expectations. We await the Christmas trading period and the outcome of the CSO review before providing further guidance," Mr Vincent said.

[1] This release should be read in conjunction with the Appendix 4E or the FY18 Results Presentation lodged with the ASX. Underlying results are non-IFRS measures that API believes are appropriate to understanding its business and financial performance.
[2] This refers to retail sales recorded at the store point of sale and includes dispensary sales. This is company store and franchise store sourced information and is not recorded in the Appendix 4E.
[3] This refers to retail sales recorded at the store point of sale and excludes dispensary sales. This is company store and franchise store sourced information and is not recorded in the Appendix 4E.
[4] Outlook is subject to no material change in consumer or customer demand, a stable economic climate, and no unforeseen adjustments to the regulatory environment or reforms to the Pharmaceutical Benefits Scheme.

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