



# ASX CEO CONNECT

TUESDAY 19 FEBRUARY 2019

# Important Notice

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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 API's results presentations for further information.

# API financial snapshot

## HIGHLIGHTS FOR FY18

- Final dividend payment up 14.3% and payout ratio increased from prior year
- Delivered FY18 underlying NPAT guidance
- Balance sheet remains strong and provides flexibility
- Completed Stage 1 of Clearskincare acquisition
- Managed challenging trading conditions and rebased support office cost structure

Revenue

**\$4.0bn**



**Clearskincare Clinics**

SKIN, LASER + ACNE EXPERTS

Underlying<sup>1</sup>  
EBITDA

**\$119m**

there's no  
place like  
priceline

Underlying<sup>1</sup>  
NPAT

**\$54.7m**



Underlying<sup>1</sup>  
EPS

**11.1c**



Total dividends

**7.5c/share**

<sup>1</sup> Refer to Appendix 1 for definition

# Complementary portfolio to achieve growth

## LEVERAGE EXISTING INFRASTRUCTURE AND MARKET EXPERTISE

**Pharmacy Distribution** to deliver stable ROCE and cash generation

Evolve **Priceline Pharmacy** offer to address customer changes

Expand **Clearskincare** network and grow profitability

Build **Consumer Brands** portfolio and earnings contribution

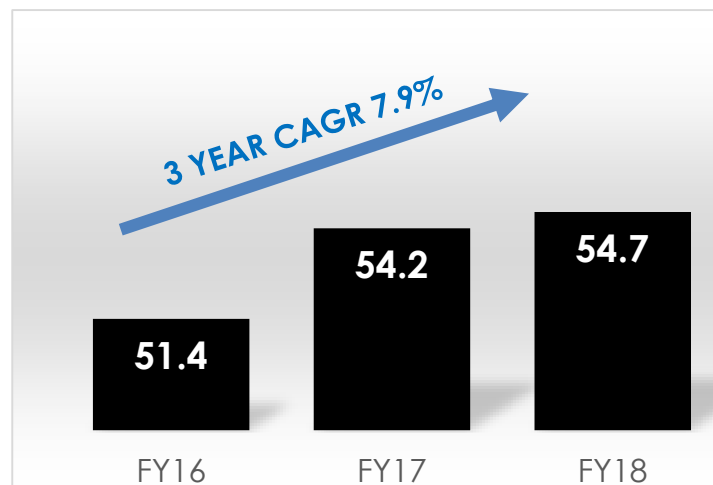
**Grow** via proposed **merger** with **Sigma**

## FINANCIAL STRENGTH AND STABILITY

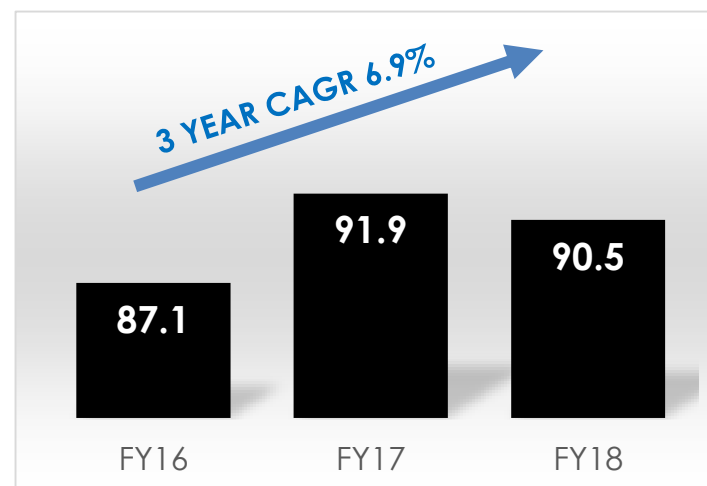
- Existing capability in heritage assets can maximise return across the business portfolio

# Financial overview

Underlying<sup>1</sup> NPAT \$m



Underlying<sup>1</sup> EBIT \$m



CODB<sup>2</sup> (% of revenue)



## IMPROVED FINANCIAL POSITION

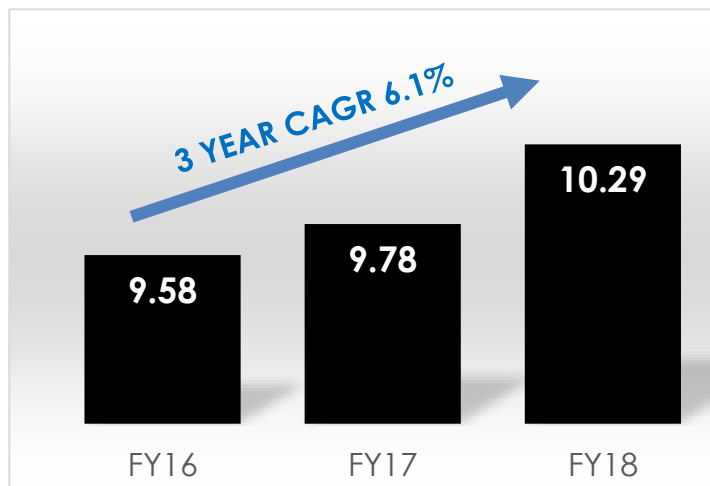
- Results achieved despite ongoing PBS Reforms and price adjustments
- Continued balance sheet improvements underpinned stable result
- Acquired Clearskincare and restructured costs for future benefit
- CODB starting to reflect the new cost base for FY19

<sup>1</sup> Refer to Appendix 1 for definition;

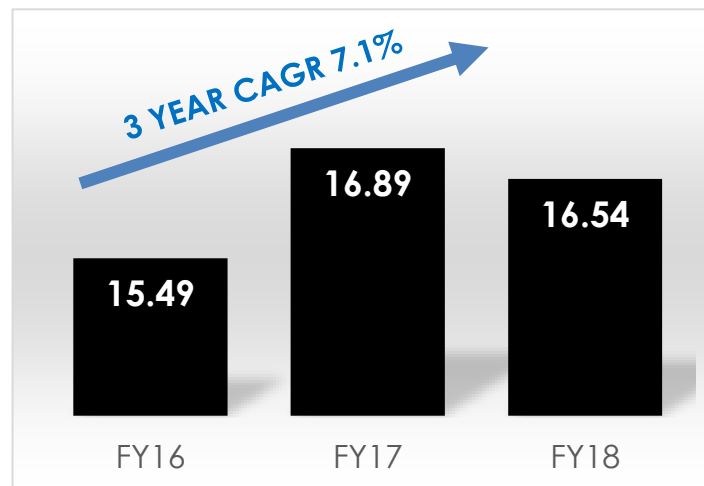
<sup>2</sup> Underlying cost of doing business excluding depreciation and Hepatitis C

# Returns consistent

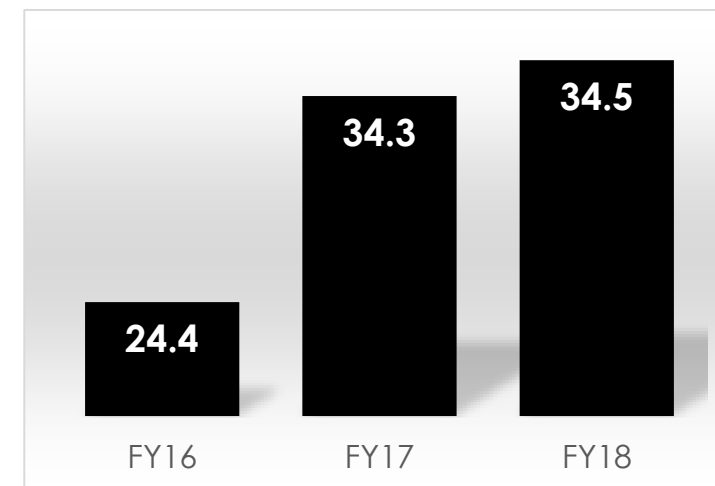
Underlying<sup>1</sup> ROE%



Underlying<sup>1</sup> ROCE%



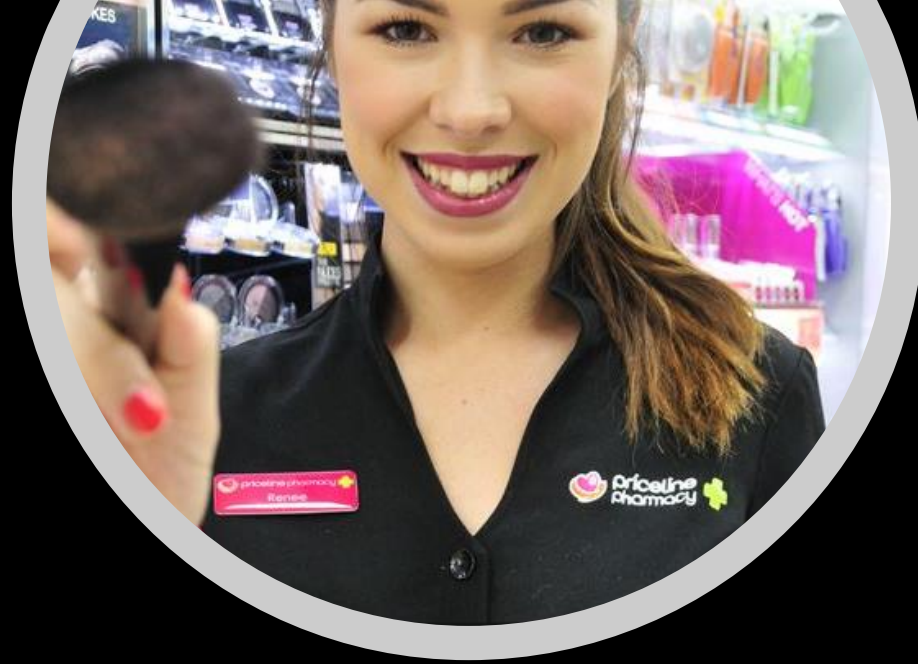
Dividend paid \$m



## RETURNS TO SHAREHOLDERS CONTINUE TO GROW

- Strong CAGR growth across all metrics
- Underlying ROE increase reflects the impact on equity of Clearskincare acquisition future payments
- ROCE reduction reflects additional debt in use for acquisition

<sup>1</sup> Refer to Appendix 1 for definition;



# Priceline Pharmacy





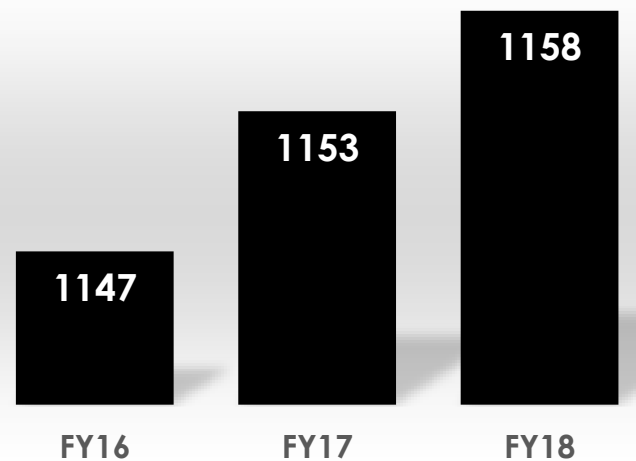
# Priceline Pharmacy results



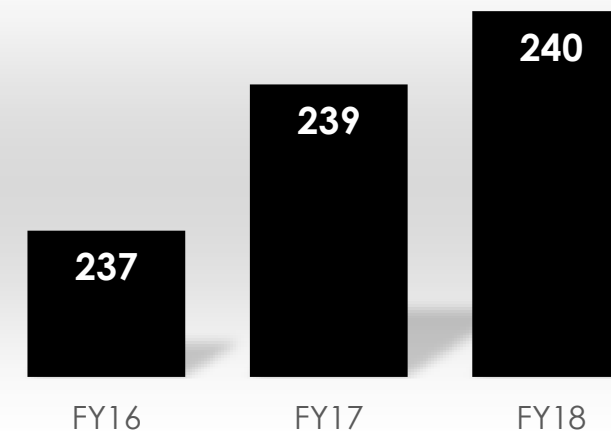
there's no  
place like  
priceline



## Retail Register Revenue \$m



## Retail GP \$m



## IMPROVED TRENDS DURING 2H18

- Total network sales<sup>1</sup> up 2.1% to \$2.11bn
- Total register sales<sup>1</sup> (excl dispensary) up 0.4% to \$1.158bn
- Retail register like-for-like sales -1.1%, improved 60bp on 1H18
- Retail network at 475 stores as at 31 August
- Gross profit result reflects management focus
- Franchise partner sentiment strengthened further on FY17

<sup>1</sup> Refer to Appendix 1 for definition



# Priceline Pharmacy evolution

there's no  
place like  
priceline



## TRANSFORM PRODUCT OFFER

- Accentuate strength of product range as a destination for favourites with greater focus on new, exclusive and on-trend offers
- Extension of key categories to take advantage of growth segments
- Capitalise on opportunistic trends and leverage brand strength as a one-stop-shop for all health and beauty needs
- Sales run-rate improving

## CUSTOMER FIRST CULTURE

- Emphasis on store execution across all formats
- Introduction of new customer satisfaction measurement tool in 2019
- Increase tailoring of product selection by category by store

## MAXIMISE LOYALTY & DIGITAL PLATFORM

- Stage 1 in mining data and trends from loyalty platform in effect
- Increased use of targeted offers and using data with suppliers
- Major upgrade to loyalty to commence in 2H19 complemented by inventory management system investment as first stage in move to click and collect
- Trial "click and collect" solution during FY19

## BUILD NETWORK STRENGTH

- Focus on right stores in right location
- Further improve margin and returns for franchise partners
- Store opening focus to net revenue in preference to "doors"
- Continue to "land-bank" stores and convert to pharmacies in the right location



# Pharmacy Distribution

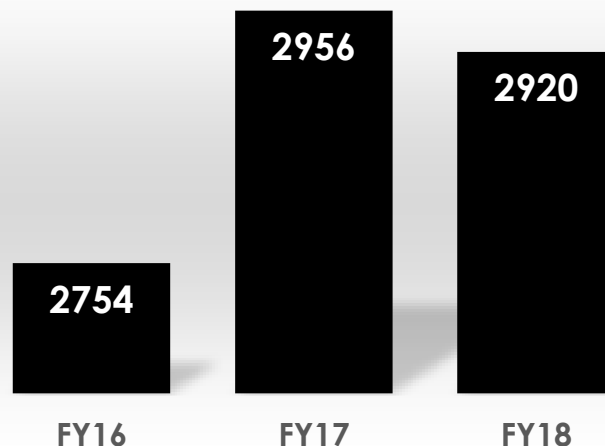
# Pharmacy Distribution results

## SUSTAINED PERFORMANCE IN TOUGH MARKET

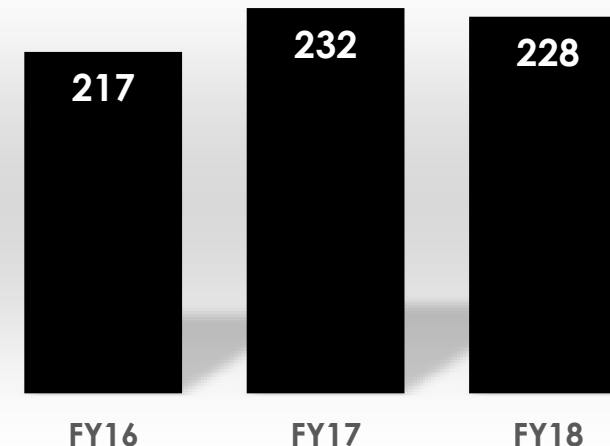
- Underlying revenue growth of 6.4% excluding PBS Reforms and Hepatitis C
- Hep C sales decreased by \$155m
- Total revenue of \$2.9bn down 1.2% on FY17
- Despite competition pressure maintained GP margin at 7.8%
- Combination of PBS changes and exclusive direct distribution removed more than \$10m gross profit



Distribution Revenue \$m



Distribution GP \$m





# API brand development

## STRONG LINKS FOR BRANDS AND INDEPENDENTS

- API-owned independent brands back into growth
- Increased engagement with improved services, advisory committees and brand forums
- Strong relationships and agreements with independent pharmacies

## INDUSTRY STATUS

- Engagement with Department of Health, Health Minister and Pharmacy Guild has been constructive
- PBS pricing reform impact on the sector continues price deflation
- Exclusive direct distribution remains inconsistent with the Federal Government's stated National Medicines Policy
- CSO Deeds to be issued to successful companies in the coming weeks

**Pharmacist Advice**

**Our professional services pharmacy model**

- Trusted advice
- Focus on health solutions
- Ability to maximise professional services
- Curated product range
- Professional clinic space

api

**Soul Pattinson Chemist**

**Our health and wellbeing pharmacy model**

- Heritage brand
- Community engagement
- Convenience offer
- Advice driven categories
- Focus on service

api

**CLUB PREMIUM**

**Our exclusive club for independent pharmacies**

- Better buying
- Opt-in marketing tools
- Pharmacy Best Buys catalogue program
- Business reporting tools
- Retail and professional service solutions

api



Only  
Good.



Consumer  
Brands

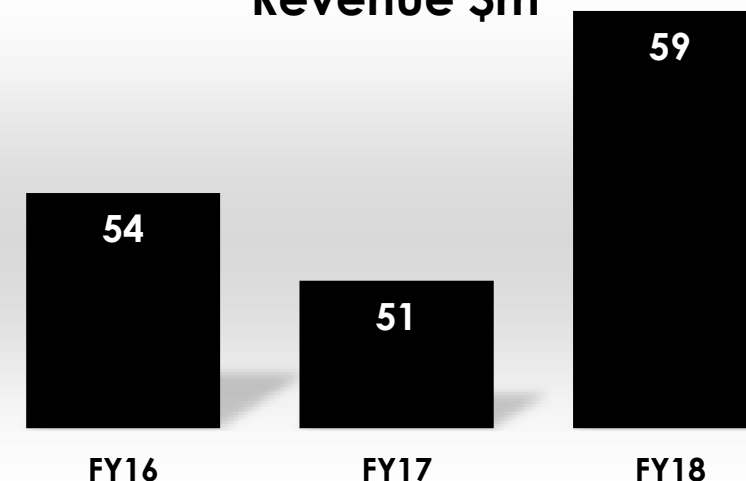
# Consumer Brands results

## MOMENTUM WITH NEW BASELINE PERFORMANCE ESTABLISHED

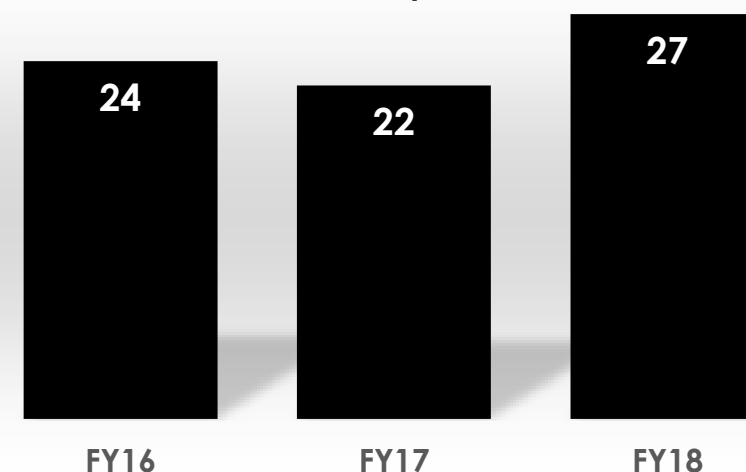
- Developing as a key portfolio in API future growth agenda
- EBIT up \$2.1m on FY17 with similar growth expected in FY19
- Sales growth primarily from Australian OTC health product growth
- Broadening portfolio of high-quality low-cost products that provides one of the strongest range offers in trans-Tasman market
- Improved product supply and range through mix of locally manufactured and in-sourcing products



## Revenue \$m



## GP \$m



# Consumer Brands development

## KEY CHANGES FOR OUTLOOK

- New management team in FY17 with right mix of technical and leadership skills
- Improved understanding of market requirements to become the preferred supplier
- Key partnerships with international providers of finished product and raw materials
- Collaboration with local experts in Asian markets to explore growth from small base
- Focussed on strengths in product development in toiletries plant to grow Health Basics, Only Good brands in NZ market

**Only  
Good**



**HEALTH BASICS**  
MADE OF NEW ZEALAND

## NEXT STEP IN GROWTH

- Introduction of unique formulations in OTC health market in FY19
- Broadening product range through agreements with reputable international partners
- Expand contracts with Australian retailers for product supply
- Develop the opportunity in Asian market







# Clearskincare



**Clearskincare Clinics**

SKIN, LASER + ACNE EXPERTS ■■■■■■

# Clearskincare results

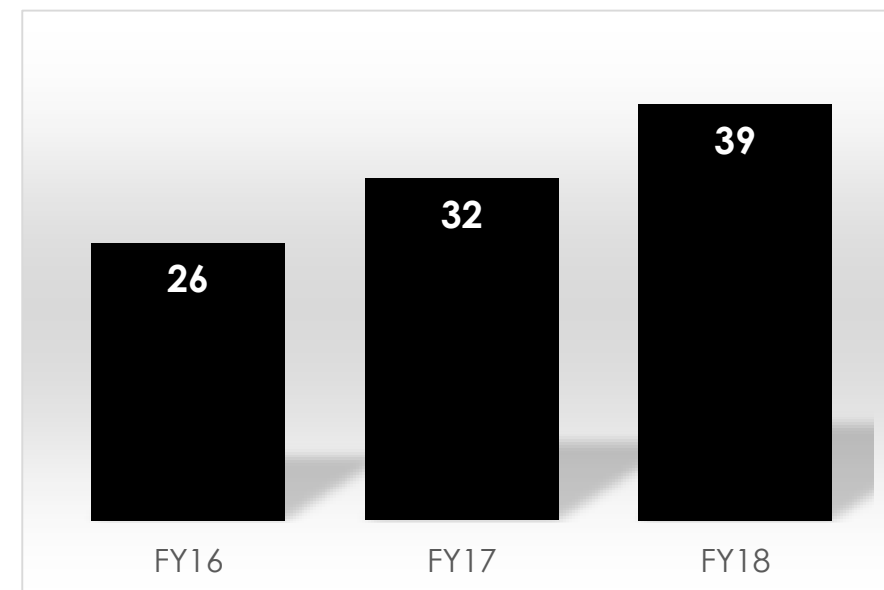
## CLINICS TRADING TO PLAN

- First stage of acquisition completed on plan at end of July 2018
- Trading in line with business plans prior to acquisition with EBITDA margins at 28%
- Integration is bringing API capability to Clearskincare
- Strengthening leadership team to accelerate business scale
- Existing owners and store teams engaged with growth plans

## CUSTOMER DEMAND

- Customer demand remains strong for breadth of services
- Opportunity to grow core treatments within existing network capacity
- Significant number of under-serviced geographical markets remain in Australia and NZ

Revenue\* \$m



\* Unaudited Clearskincare revenue sourced from vendor management accounts for a 12 month period ending 31 July on a 100% ownership basis

# Clinic growth outlook

## PREMISE UNDERLYING THE ACQUISITION AND GROWTH

- Management executing according to the initial premise of acquisition rationale
- Strong position within competitive market and further upside once operational disciplines in place

## API CAPABILITY CAN ACCELERATE GROWTH

- Growth trajectory for services continues
- Network expansion key to further value accretion



## CONTINUED ROLL OUT OF NEW CLINICS

- First tranche of stores to open in 2Q18 under company ownership
- Scoped sites in Australia and NZ to develop core network growth plan

## IMPROVE UNDERLYING BUSINESS PERFORMANCE

- Leveraging loyalty database to increase exposure to new customers
- Ongoing marketing program expanded for existing and new stores
- Using supplier relationships to improve cost of doing business

## OPERATIONAL DISCIPLINES TO IMPROVE ROLLOUT

- Developing more consistency in store roll out and planning
- Franchise business model developed for future network growth

# Proposal to Sigma Healthcare

- Non-binding indicative offer (NBIO) made in October, advised market of holding 14 December 2018
- Continue to hold 12.95% of shares in Sigma Healthcare
- Under NBIO Sigma shareholders receive 0.31 API shares and 23 cents for each Sigma share
- Merger expected to deliver \$60m synergies per annum by year three
- Commenced preliminary due diligence to verify synergies
- Subject to regulatory approval

## CONFIDENCE IN GROWTH PORTFOLIO

- Breadth of portfolio will deliver growth in FY19
- Retail trading in line with our FY19 expectation although environment remains tough
- Expect 1H19 EBIT to be 5% up on 1H18
- Proposal to Sigma Healthcare presents significant opportunity to shareholders in both companies

# 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 2018.

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 and acquisition costs. 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
- Net Debt or Net Cash – Borrowings less cash on hand
- Underlying Return on Capital Employed (ROCE) – Underlying EBIT/Average Total Capital Employed
- Underlying Return on equity (ROE) – Underlying NPAT/Average Equity
- Retail network sales – all register sales in franchise and company stores in the Priceline/Priceline Pharmacy brand, including dispensary sales
- 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 calculated on sales before any PBS price changes that occur during the course of the year as directed by the Federal Department of Health