17 April 2019

2019 HALF YEAR RESULTS ANNOUNCEMENT
API GROWTH ASSETS DELIVER IMPROVED PERFORMANCE

- Total revenue growth was up 6.6% on the prior corresponding period (pcp), excluding Hepatitis C medicine sales and PBS Reforms.
- Earnings before interest and tax (EBIT) of $44.4 million, up 5.8% on pcp.
- Net profit after tax (NPAT) of $25.0 million, up 0.2% on pcp, includes the impact of financing costs associated with the Sigma share purchase.
- Underlying NPAT of $26.8 million, in line with pcp.
- Underlying return on equity rose 101 basis points to 10.23% on the pcp.
- Underlying return on capital employed[1] was 33 basis points lower at 15.07%, from 15.40% in the pcp.
- Fully franked interim dividend of 3.75 cents per share, up 7.1% on the pcp representing a payout ratio of 77.0% for the half

Australian Pharmaceutical Industries Limited (API) today reported underlying NPAT of $26.8 million for the six months ended 28 February 2019, in line with the pcp. Reported NPAT for the year included financing costs associated with the Sigma Healthcare share purchase and Clear Skincare acquisition and was $25.0 million, up $0.1 million from the pcp.

Total revenue for the six months was up 6.6% to $1.98 billion after adjusting out the impact of Hepatitis C medicines and PBS Reforms. Underlying EBITDA was $60.5 million, up 3.0% on the pcp.

"We have a highly complementary portfolio of assets with an attractive growth outlook, which combined during the half to deliver improved earnings and NPAT.

"The business had a solid performance, with Priceline Pharmacy returning to positive like-for-like sales growth, our Consumer Brands business expanding once again, and effectively bedding in our Clear Skincare acquisition.

"API's financial position remains strong and has allowed us to make an investment in Sigma Healthcare, acquire Clear Skincare and provide additional inventory to capitalise on sales opportunities during the half," API CEO & Managing Director, Richard Vincent said.

[1] Excluding the impact of the Sigma share acquisition

API reported increased net debt levels from the same time last year, moving from $25.1 million at the end of February 2018 to $262.0 million at the end of February 2019, including the cost of purchasing a 12.95 per cent stake in Sigma Healthcare Limited and the acquisition of Clear Skincare. The financing costs of the investment in Sigma are offset by dividend payments over a 12-month period. An increase in working capital delivered improved sales, although the timing of the sales promotions and debt collections saw the company's cash conversion cycle decline by 5.2 days on the pcp. API said its cash conversion cycle had adjusted since the reporting date and is in the process of normalising.

<u>Priceline Pharmacy</u>

Priceline Pharmacy total network sales for the period were $1.1 billion[2], up slightly from the pcp, with total network like-for-like sales up 0.3%. This positive shift in like-for-like sales reflects a strong performance given prevailing retail conditions.

"Our plans to drive sales and profitability are delivering positive results, with further major product launches and category development initiatives coming in the second half. Higher stock levels in the lead up to Christmas and during promotional activity has maximised returns on store foot traffic and helped return the network to positive like-for-like sales.

"Despite increased competition in the health and beauty market we held market share, whilst delivering an increase in register gross profit margin, up 280 basis points.

"The Sister Club has again proven its worth and we continue to invest in exclusive offers and promotions to build engagement within the program. We are also pleased with the growth in basket size that we were able to deliver," Mr Vincent said.

The Priceline Pharmacy store network grew to 479 with network growth expected in the second half. API confirmed it will continue its policy of closing stores where landlords persist with unrealistic rental demands and, if need be, opening fewer, more profitable stores.

<u>Pharmacy Distribution</u>

API's reported Pharmacy Distribution revenue excluding Hepatitis C and PBS reform was up 8.8% on the pcp at $1.4 billion.

"Despite the impacts of PBS reform and intense competition across the sector, Pharmacy Distribution delivered a creditable result. It generates strong and predictable cashflows, which enables API to continue to invest behind its growth assets," Mr Vincent said.

During the half API continued its development of independent pharmacy offers through Soul Pattinson, Pharmacist Advice and Club Premium. These programs have delivered renewed member growth which drove the underlying revenue improvement. Overall API now has over 1,400 members in its retail pharmacy programs.

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[2] 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 4D.

Following a series of Government reviews, the value inherent in the Community Service Obligation (CSO) for pharmaceutical wholesalers has been recognised and validated. The Department of Health's new Community Service Obligation (CSO) Deeds were finalised at the end of March 2019 and provide funding certainty until June 2020, at which point the CSO Deeds may be renewed.

"The certainty of CSO funding and the maintenance of the standards are welcome, however by keeping the funding pool at the same level as prior years, the Government has not addressed the rising operational costs faced by all wholesalers," Mr Vincent said.

Consumer Brands

API's Consumer Brands business performed exceptionally well, with revenue up 20.7% to $34.1 million, compared to the pcp. EBIT rose $1.8 million to $2.3 million.

"The Consumer Brands business is an increasingly significant part of our growth portfolio following an extensive overhaul of our product range and value proposition.

"The growth is coming predominantly through our expanded healthcare range, along with encouraging performance in the personal care category."

"We're excited by the growth opportunity our Consumer Brands business affords us. Through more manufacturing contracts with suppliers and retailers, new product development and line extensions we expect further upside for the full year," Mr Vincent said.

Clear Skincare

Clear Skincare continued its strong growth trajectory with revenue increasing by 21% on the prior half, which was before ownership.

"We are applying our expertise in fields such as property network management, franchise development and marketing discipline to accelerate Clear Skincare's growth. In the past six months we have added three new clinics, taking the total to 47. We have recently launched the Clear Skincare range in Priceline Pharmacy, providing further retail exposure for the brand.

"In the medium term, we see significant opportunities to accelerate network growth and increase market penetration. Priceline Pharmacy and Clear Skincare share common customers, and we are already seeing the benefits of exclusive offers made to Sister Club members," Mr Vincent said.

Dividend Payment

API declared an interim dividend for the first half of the 2019 financial year of 3.75 cents per share fully franked, up 7.1% on the pcp. The payout ratio is 77% for the half, up from 69% at the same time last year, and the continued increase in the dividend reflects the confidence of the API Board in the future performance of the company. The record date for the dividend is 3 May 2019 and the payment date is 31 May 2019.

Outlook

In March, discussions ceased in relation to the highly synergistic merger proposal with Sigma Healthcare. API continues to review its shareholding.

"We remain focussed on delivering our core strategy. The combination of our highly cash generative Pharmacy Distribution business with an attractive portfolio of growth businesses means we are well positioned to continue to deliver better returns for shareholders.

"Retail trading has remained variable however the fundamentals of our business remain in good condition and we expect to deliver positive growth again in the second half," Mr Vincent said.

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