



api

# HY20 Results Presentation

THURSDAY 23 APRIL 2020

# Important Notice

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The material in this presentation is general information about API's activities and is 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 factors should be considered with or without professional advice when deciding if an investment is appropriate.

# Overview

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- ❖ API operational overview
- ❖ Financial and operational performance for the first half of FY20
- ❖ COVID-19 impact and API in the community
- ❖ Outlook

# API Operational Overview

Richard Vincent  
CEO & Managing Director

# Strategic direction



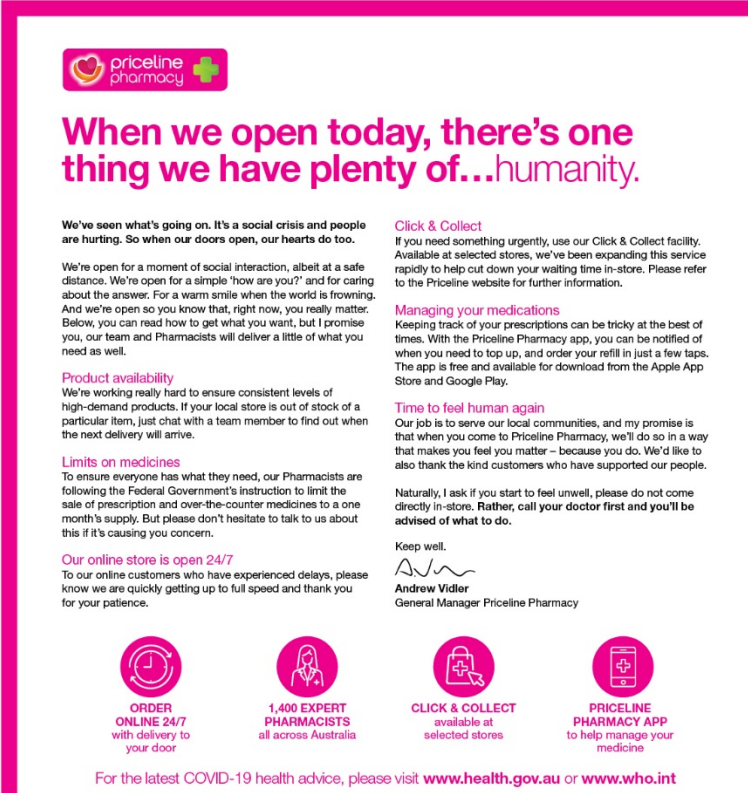
GOOD PROGRESS IN H1

# 1. Evolve customer offer based on insights

## API ENABLES OUR CUSTOMERS TO TAKE CONTROL OF THEIR HEALTH AND BEAUTY NEEDS...

- Continue to build Priceline Pharmacy's unique retail proposition, based on customer insights, that combines pharmacy piece of mind in health, with inspired ideas in wellness and beauty
- Expanded health services including
  - Extensive rollout of health stations across our pharmacy network
  - Australia's largest health check and prevention program through the Health Stations with more than 1.4 million visits recording key health measures
  - Our largest pharmacist vaccination program with over 300,000 flu vaccinations expected by May 2020
  - A 3-fold increase in Priceline Pharmacy app activations to help customer better manage their medication
- Priceline Pharmacy network launched Click & Collect during the half and subsequently Click & Deliver, leveraging our store network to efficiently distribute to our customers

**PRICELINE PHARMACY IS SOUNDLY PLACED TO PROSPER IN A POST COVID-19 MARKET PLACE**



**When we open today, there's one thing we have plenty of...humanity.**

**We've seen what's going on. It's a social crisis and people are hurting. So when our doors open, our hearts do too.**

We're open for a moment of social interaction, albeit at a safe distance. We're open for a simple 'how are you?' and for caring about the answer. For a warm smile when the world is frowning. And we're open so you know that, right now, you really matter. Below, you can read how to get what you want, but I promise you, our team and Pharmacists will deliver a little of what you need as well.

**Click & Collect**  
If you need something urgently, use our Click & Collect facility. Available at selected stores, we've been expanding this service rapidly to help cut down your waiting time in-store. Please refer to the Priceline website for further information.

**Managing your medications**  
Keeping track of your prescriptions can be tricky at the best of times. With the Priceline Pharmacy app, you can be notified of when you need to top up, and order your refill in just a few taps. The app is free and available for download from the Apple App Store and Google Play.

**Time to feel human again**  
Our job is to serve our local communities, and my promise is that when you come to Priceline Pharmacy, we'll do so in a way that makes you feel you matter – because you do. We'd like to also thank the kind customers who have supported our people.

**Naturally, I ask if you start to feel unwell, please do not come directly in-store. Rather, call your doctor first and you'll be advised of what to do.**

**Keep well.**  
*Andrew Vidlar*  
General Manager Priceline Pharmacy

**Product availability**  
We're working really hard to ensure consistent levels of high-demand products. If your local store is out of stock of a particular item, just chat with a team member to find out when the next delivery will arrive.

**Limits on medicines**  
To ensure everyone has what they need, our Pharmacists are following the Federal Government's instruction to limit the sale of prescription and over-the-counter medicines to a one month's supply. But please don't hesitate to talk to us about this if it's causing you concern.

**Our online store is open 24/7**  
To our online customers who have experienced delays, please know we are quickly getting up to full speed and thank you for your patience.

**ORDER ONLINE 24/7**  
with delivery to your door

**1,400 EXPERT PHARMACISTS**  
all across Australia

**CLICK & COLLECT**  
available at selected stores

**PRICELINE PHARMACY APP**  
to help manage your medicine

For the latest COVID-19 health advice, please visit [www.health.gov.au](http://www.health.gov.au) or [www.who.int](http://www.who.int)

**PRICELINE PHARMACY**

## 2. Lower Cost of Doing Business

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### API HAS...

- Taken recurring costs out by closing two Distribution Centres, Newcastle and Canberra, these customers now serviced from the Sydney DC
- Reworked our operating model taking costs out of our support offices
- Invested in our technology platforms to advance our loyalty program, optimise inventory ordering and management and enhance promotional management
- Focused on driving further cost efficiencies through the business
- Cost of Doing Business excluding Hep C and depreciation has reduced 6.1% over the pcip to 10.8% of revenue

**THERE ARE FURTHER COST SAVINGS TO COME**

# 3. Strengthen Balance Sheet

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## API HAS...

- Reduced Adjusted Net Debt<sup>1</sup> to \$129.7m, down 50% on the pcp

### Working capital

- Driven our working capital investment down to highly efficient levels - cash conversion days of 22.0 and cash benefit \$54.4m for the past 12 months
- Developed tools to optimise our inventory holdings to service our customers whilst maintaining a lean inventory holding

### Capital Management

- Sold Sigma Healthcare shareholding at an opportune time once it was evident that the fundamental benefits of the merger had significantly diminished, freeing up balance sheet and funding capacity, \$82.2m
- Managed cash and debt efficiently with strong bank relationships

**WE HAVE FURTHER OPPORTUNITIES TO STRENGTHEN THE BALANCE SHEET**

<sup>1</sup> Refer to Appendix 1 for all definitions

## 4. Accelerate investment in growth assets

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### API HAS...

- Ramped up the rollout of Clear Skincare to 59 clinics, an increase of 25% on the pcp and well positioned to grow once the clinics re-open
- Upgraded the online store for Clear Skincare enabling Clear Skincare products sales to expand
- Invested in Consumer Brands product development, expanding the range to 444 products up 74 over the half
- Adapted within Consumer Brands to quickly produce hand sanitiser at scale since COVID-19

**WILL CONTINUE TO INVEST FURTHER IN THESE TWO BUSINESSES**

# Group Performance

For the half to 29 February 2020

Richard Vincent  
CEO & Managing Director

# HY20 Results snapshot

## HIGHLIGHTS

- Solid result starting to reflect strategic focus
- Underlying EBIT and Underlying NPAT slightly below pcp in line with expectations outlined at our AGM on 22 January 2020
- Balance sheet strength will support growth
- CODB<sup>1</sup> down 6.1% on pcp due to restructuring during the half
- No interim dividend – prudent approach to preserve cash in the current environment

<sup>1</sup> Refer to Appendix 1 for all definitions

Revenue

**\$2.0bn**

+2.8%



Underlying EBIT<sup>1</sup>

**\$41.7m**

-6.1%



Underlying NPAT<sup>1</sup>

**\$26.3m**

-1.9%



Underlying Basic EPS

**5.3¢**

-1.9%



CODB<sup>1</sup>

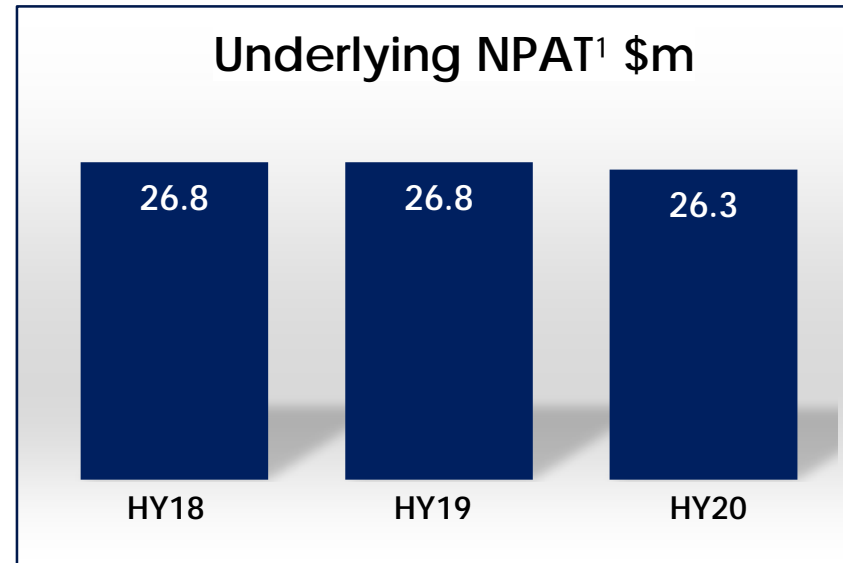
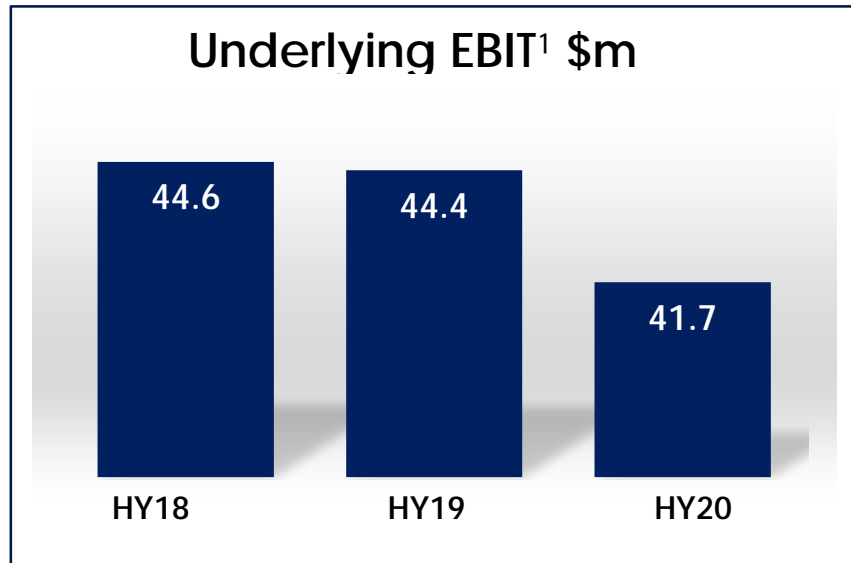
**10.8%**

-6.1%

# Financial Results

Peter Mendo  
Chief Financial Officer

# Financial overview



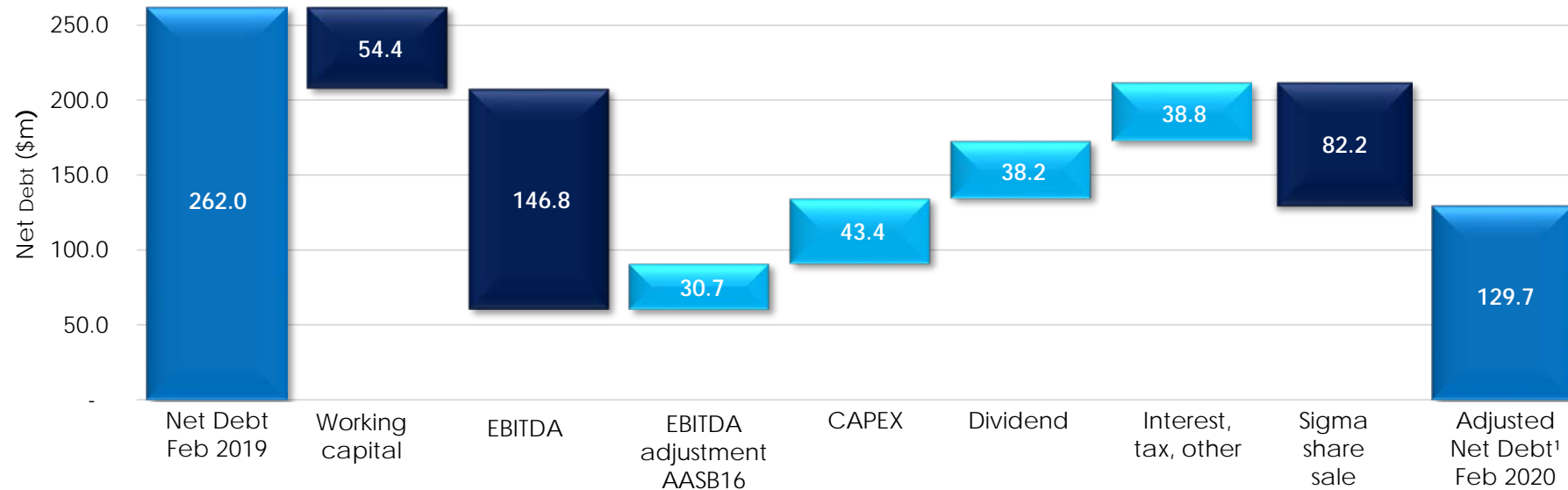
## IMPACTED BY CHALLENGING RETAIL CONDITIONS

- Result is in line with expectations despite challenging retail conditions, with Underlying EBIT down \$2.7m (6.1%) and Underlying NPAT down \$0.5m (1.9%)
- Adjustments to achieve Underlying NPAT result:
  - Costs of ongoing business restructure, including closure of two DCs, \$2.9m added back
  - Impact of AASB16 \$0.8m added back

<sup>1</sup> Refer to Appendix 1 for all definitions

# Debt management

## ADJUSTED NET DEBT SIGNIFICANTLY IMPROVED



**Adjusted Net Debt at February 2020 was \$129.7m<sup>1</sup> down from \$262.0m at February 2019**

<sup>1</sup> On 29 February 2020 our transactional bank did not process \$53.8m payments in error, this amount has been added to reported Net Debt of \$75.9m to result in Adjusted Net Debt. The corresponding adjustment is to reported Creditors.

# Working capital

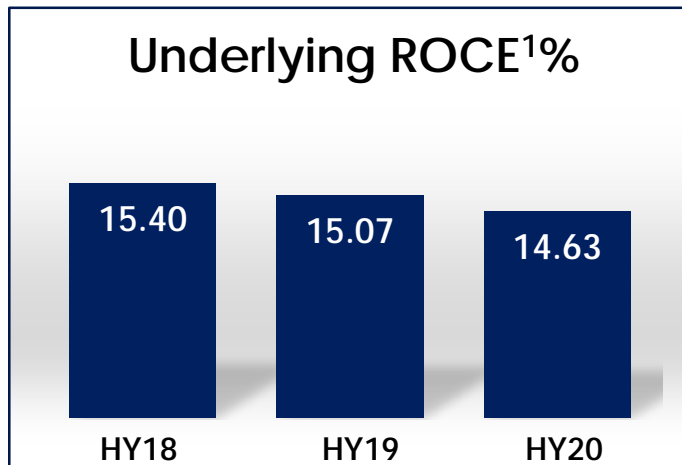
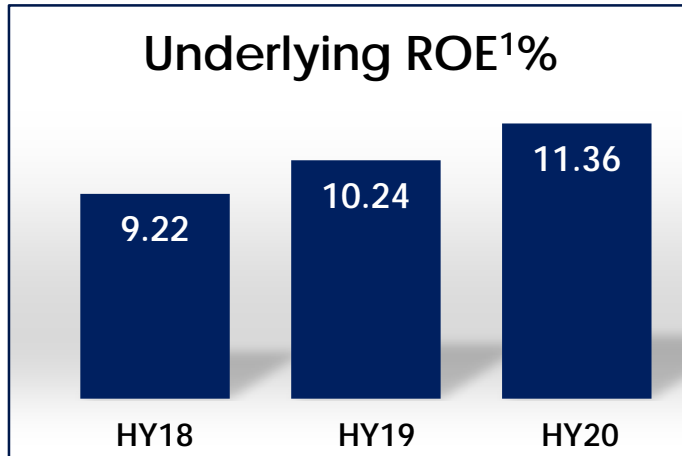
## WORKING CAPITAL AND DEBT FACILITIES WELL POSITIONED

- Working capital cash conversion days at strengthening levels
- Cash performance was strong over the half reflecting our ongoing focus on working capital
- Debt facilities have varying termination dates to spread refinance risk, all facilities had in excess of 12 months at half year end
- Net finance costs \$10.3m, includes \$3.0m relating to AASB16 implementation and \$0.7m relating to the Sigma Shareholding

Working Capital <sup>1</sup>	HY19	FY19	HY20
Trade Debtor Days	37.2	39.2	37.2
Inventory Days	38.8	39.3	38.3
Trade Payable Days	46.7	57.4	53.5
Cash Conversion Days	29.3	21.1	22.0

<sup>1</sup> Refer to Appendix 1 for all definitions

# Capital management



## CAPITAL MANAGEMENT OUTLOOK

- Cash management a priority:
  - Capex will be reduced and priority given to growth initiatives
  - Credit risk is being managed closely
- Clear Skincare acquisition payments due September 2020 and 2021
- Considering the new Sydney DC options, majority of the spend FY22

## RETURNS TO SHAREHOLDERS CONSISTENTLY STRONG

- Underlying ROE reflects the effect of the Clear Skincare transaction on equity, plus the growth in Pharmacy Distribution and Clear Skincare
- Underlying ROCE reduction reflects lower EBIT for the half
- API Board has taken a prudent approach to preserve cash and resolved not to pay an interim dividend

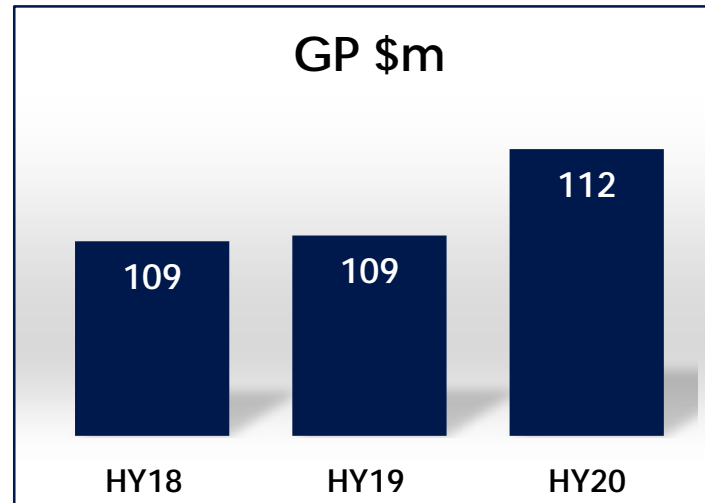
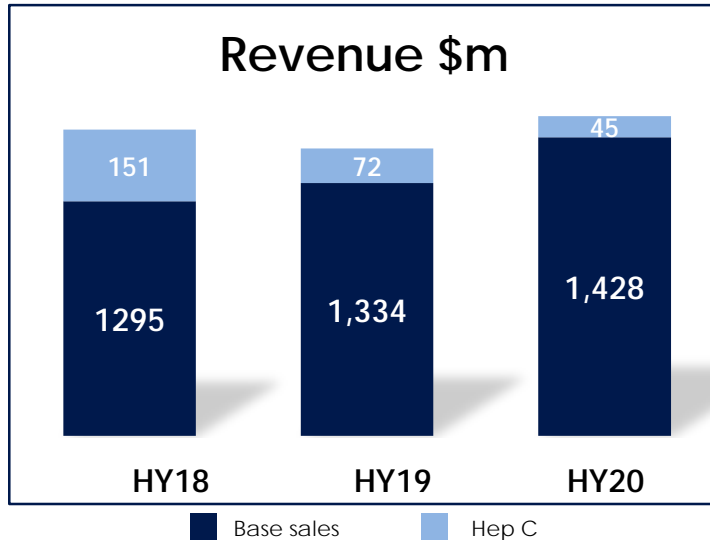
<sup>1</sup> Refer to Appendix 1 for all definitions

# Operational Results

Richard Vincent  
CEO & Managing Director

# Pharmacy Distribution

# Pharmacy Distribution results



## BENEFITED FROM VOLUME INCREASES

- Growth in Pharmacy Revenue excluding Hepatitis C up 7.1%
- Benefited from retaining and adding new pharmacy groups and the return of direct suppliers
- Grew stores numbers in API banners to over 1,500 of the 5,762 community pharmacies in Australia
- Closed Newcastle and Canberra Distribution Centres during the period to streamline operations

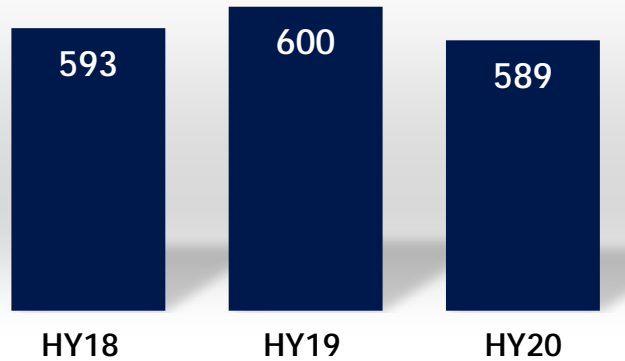
<sup>1</sup> Refer to Appendix 1 for all definitions



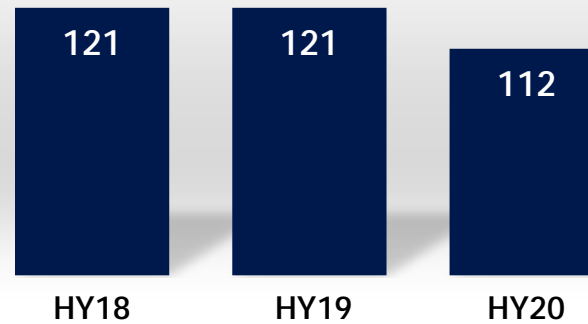
# Priceline Pharmacy

# Priceline Pharmacy results

Retail Register Revenue<sup>1</sup> \$m



Retail GP \$m



## REFLECTS CHALLENGING RETAIL MARKET

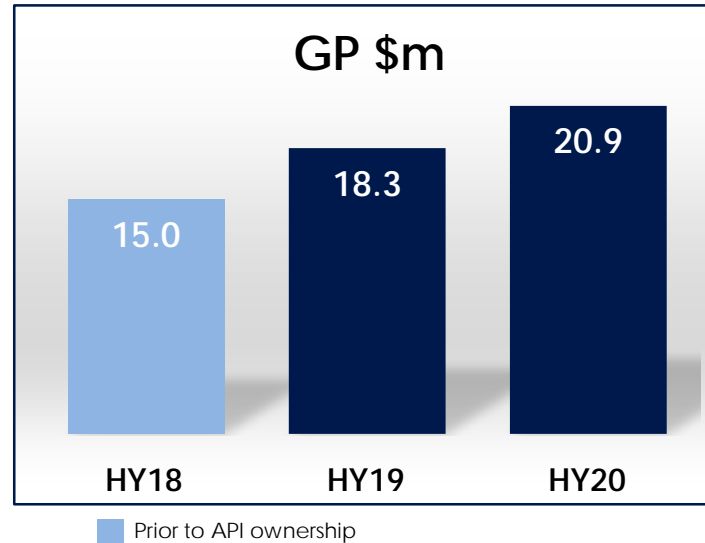
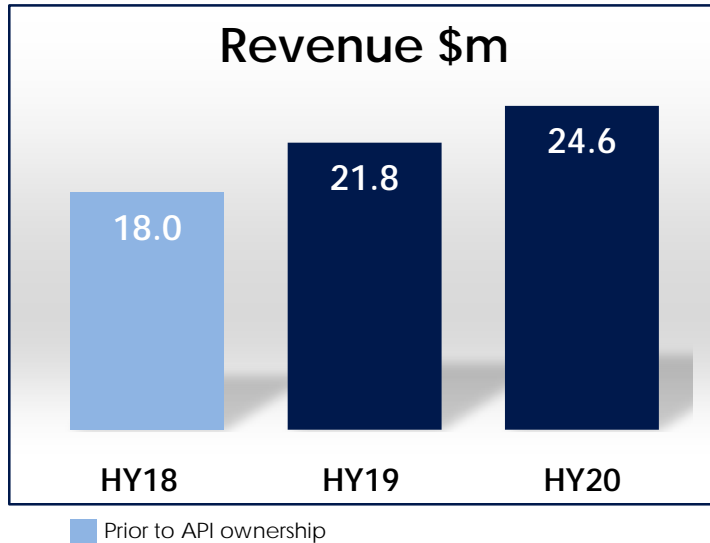
- Retail Register Revenue totalled \$589m, down 1.8%
- Challenging retail conditions, with deterioration late in the half
- 488 stores and LFLs<sup>1</sup> of -1.3%, including the dispensary LFL<sup>1</sup> result is +0.9%
- Introduced Click & Collect and trialled Click & Deliver with significant take up - allows customer flexible shopping options
- Launched new and exclusive brands, including Revolution Cosmetics and Revolution Skincare

<sup>1</sup> Refer to Appendix 1 for all definitions



# Clear Skincare

# Clear Skincare results



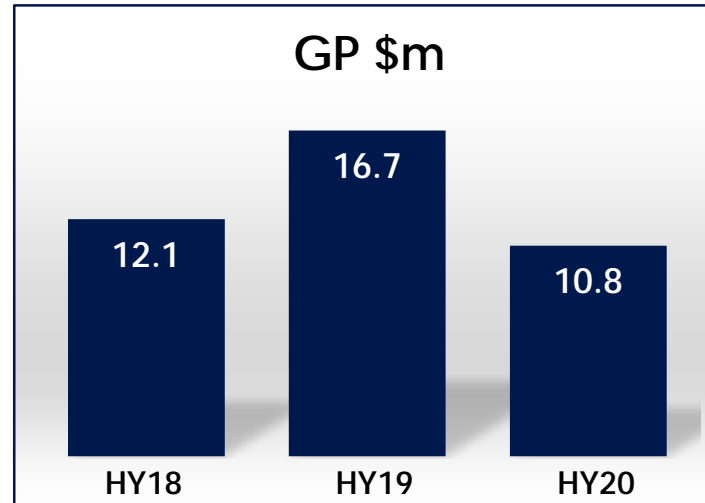
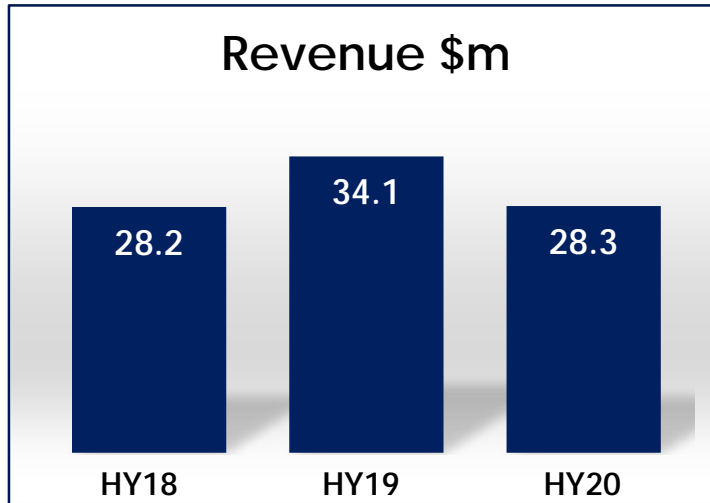
## STRONG RESULT REFLECTING NEW CLINIC OPENINGS

- Revenue growth 12.8% and Gross Profit growth 14.5% reflects the increase in clinics and strong margin management
- 59 clinics at half year end up from 47 at pcip
- Sales of Clear Skincare product across Priceline network embedded and growing



# Consumer Brands

# Consumer Brands results



## POSITIONED FOR GROWTH WITH GEOGRAPHIC ADVANTAGES

- As outlined at our AGM, this business experienced a slow down in the first half reflecting:
  - delays in sourcing raw material for Personal care and the Pharma Plant
  - the impact of the lumpy nature of manufacturing contracts
- Continue to develop new product with 444 products, up 74 for the half



# COVID-19 and API in the Community

Richard Vincent  
CEO & Managing Director

# COVID-19

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## SAFETY AND BUSINESS CONTINUITY

**The safety and wellbeing of our staff and customers remains our focus**

We have responded and adapted effectively across our business units including:

- A and B rotating teams of staff in place in retail stores and DCs to ensure we have a back up in the event a team goes into quarantine
- Adapted protocols to protect staff and customers including clear distancing signage and guides, disinfecting and cleaning appropriately, hand sanitiser and personal protection equipment in use
- Communicating safety advice and updates to customers, staff and franchise partners
- Our continuity planning extends from suppliers to community pharmacies



# COVID-19

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## IMPACT BY BUSINESS

### The environment is fluid

- Pharmacy Distribution has continued to experience significantly increased demand above pcp
- Priceline Pharmacy store network like-for-like sales for March were up on the pcp, however self isolation has slowed sales in April. The results vary by store and depend on its location and whether the store has a dispensary. We continue to assess the performance of each store and review the application of Government subsidies
- Clear Skincare clinics have remained closed since 25 March. This business will re-open as soon as it is safe to offer these services
- Consumer Brands volumes in March were well above typical levels in Personal Care and in Health Care and this continues as the business is adapting to current demand by adding hand sanitiser and increasing production of cold and flu products and analgesics

# API in the community

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## ESSENTIAL SERVICE DELIVERY IN PARTNERSHIP WITH INDUSTRY AND THE GOVERNMENT

APIs value as a national distributor of health and beauty products has been evident throughout:

- The recent bushfire emergency in the eastern states
  - Our Pharmacy Distribution business coordinated, with other CSO distributors, deliveries of life-saving medicines to pharmacies and people across the country including isolated communities
  - Priceline Pharmacy stores distributed free care packs and raised funds in store for the Australian Red Cross Disaster Relief Fund
- The current COVID-19 pandemic
  - We have implemented equitable distribution of healthcare products to community pharmacies at a time of extreme need via our efficient inventory and order management systems which has allowed sufficient access to products in high demand or with shortages
  - We are working with Government and our suppliers to ensure the healthcare products supply chain continues to operate effectively

**API REMAINS COMMITTED TO ITS ROLE IN THE DELIVERY OF CRITICAL HEALTH PRODUCTS**

# FY20 Outlook

# FY20 Outlook

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- 7CPA discussions have been delayed given the current focus of the Department of Health and we continue to work towards a positive outcome
- Managing capital expenditure to preserve cash in the short term
  - Sydney DC plans are progressing with majority of the spend in FY22
- Clear Skincare clinics to open when appropriate
- Productive discussions with landlords – we are receiving concessions
- Strengthened working capital can be leveraged for opportunities
- Due to fluid market conditions, cannot provide an earnings outlook

**WE ARE WELL PLACED FOR A LOW GROWTH ENVIRONMENT**



# Appendices

# Appendix 1a ASIC

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## 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 29 February 2020.

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 and Tax (EBIT)
- Underlying Return on Capital Employed (ROCE)
- Underlying Return on Equity (ROE)
- Underlying Pharmacy Revenue Growth
- Retail register revenue
- Retail network revenue
- Underlying Net Profit After Tax NPAT

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 Half Year presentation has not been audited or reviewed in accordance with Australian Auditing Standards.

# Appendix 1b definitions

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- Adjusted Net Debt – Net Debt adjusted for a bank processing error on 29 February 2020
- CODB – cost of doing business excluding the impact of Hep C, depreciation and AASB16
- EBITDA - Result from operating activities before Depreciation and Amortisation
- EBIT – Result from operating activities
- LFLs – like for like sales comparing the same store sales between periods
- Net Debt – Borrowings less cash and cash equivalents
- Underlying NPAT – Net Profit after Tax calculated with the adjustments as outlined in Appendix 1c
- Underlying EBIT – EBIT calculated with the adjustments as outlined in Appendix 1c
- Underlying Return on Capital Employed (ROCE) – Underlying EBIT/Average Total Capital Employed. Note that the prior period was adjusted for the Sigma shareholding sold in this half year
- Underlying Return on Equity (ROE) – Underlying NPAT/Average Equity. Note that the prior period was adjusted for the Sigma shareholding sold in this half year
- pcpc – prior corresponding period
- Retail network revenue – all register sales by franchise and company stores in the Priceline/Priceline Pharmacy brand, including dispensary sales. Register sales made by franchisees do not form part of the results of the consolidated entity
- Retail register revenue – sales recorded at the register of all network stores which excludes dispensary sales. Register sales made by franchisees do not form part of the results of the consolidated entity
- Retail revenue – revenue generated by the Retail business of API and included in the Segment Note to the Statutory Accounts
- Working Capital days are calculated excluding the impact of API Rewards on Trade Debtor and Trade Creditor balances

# Appendix 1c HY20 income statement

\$M AUD	HY20*	HY19	Change
Revenue	2,033.1	1,977.1	2.8%
Gross Profit	255.2	265.9	-4.0%
Less Operating Costs net of other income	215.9	221.5	-2.5%
EBIT	39.3	44.4	-11.5%
Less Financing Costs	10.3	8.1	27.2%
Less Tax Expense	6.5	11.3	-42.5%
NPAT pre adjustment	22.5	25.0	-9.9%
Add back restructure costs & strategic business growth costs	2.9	1.8	
Add back impact of adoption of AASB16 Leases	0.8	-	
Underlying NPAT excluding AASB16 Leases	26.3	26.8	-1.9%

\* HY20 to NPAT contains AASB16 Leasing Standard implementation