



Thursday, 22 October 2020

2020 FULL YEAR RESULTS DEMONSTRABLE PROGRESS ON STRATEGIC IMPERATIVES POSITIONS API FOR THE FUTURE

Group performance

- Strengthened balance sheet with net debt reduced to \$18.0 million, down \$181.1 million on the prior corresponding period (pcp)
- Cash conversion days reduced to 16.8, an improvement of 4.2 days on the pcp
- Step change in cost of doing business at 10.2%¹, improved by 70bps on the pcp
- Underlying net profit after tax (NPAT) excluding AASB16 was \$32.5 million, down 42.6% on the pcp due to retail lockdowns and reduced foot traffic
- Reported earnings before interest and tax (EBIT) of \$4.4 million and reported NPAT of -\$7.9 million (loss)
- Fully franked final dividend of 2.0 cents per share representing a payout ratio of 33% of Underlying NPAT

Summary of key COVID-19 impacts

- Focus has been on maintaining the safety of employees, pharmacists and their customers
- As a vital health service, Pharmacy Distribution and Priceline Pharmacy stores have remained operational throughout the pandemic with no significant impact on the delivery of medicines
- Priceline company-owned stores (non-pharmacy) and Clear Skincare clinics were closed for periods of up to 17 weeks, with reopening in Victoria imminent
- Rapid rollout of Click & Collect and Click & Deliver accelerated Priceline Pharmacy online sales
- Clear Skincare launched a new website that boosted online sales
- Significant shift in consumer spending towards products and services that address physical and mental wellbeing and towards value-based products which fits well with API's offering

¹ Underlying cost of doing business excluding AASB16, the impact of Hepatitis-C medicines and depreciation





Group Overview

Australian Pharmaceutical Industries Limited (API), today announced that underlying EBIT² was \$56.3 million to the year ending 31 August 2020, down 40.1% on the prior year. Underlying NPAT² was \$32.5 million, down 42.6% on the prior year due to the impact of COVID-19 on its retail businesses. Total Group revenue was \$4.0 billion, an increase of 0.2% on the prior year despite the retail lockdowns in both our Priceline and Clear Skincare businesses.

"This result is testament to the strength of API's combined portfolio of businesses. Pharmacy Distribution revenue excluding Hepatitis C increased 6.1% which demonstrates the resilience of that business throughout COVID-19.

"With half of API's revenue coming from its retail businesses, we were exposed to the impact of mandatory lockdowns to non-pharmacy Priceline stores and Clear Skincare clinics. Clear Skincare has performed very well in those states that have reopened and we continue the investment in new clinics.

"At Priceline Pharmacy we invested significantly in strengthening our Sister Club loyalty program and health offering. We took the opportunity COVID-19 presented to build out our omni channel offer with the rapid rollout of Click & Collect across the network and the addition of Click & Deliver. This contributed to our online sales increasing by 69% on the prior year but with growth of more than 100% since March.

"From a capital management perspective, we made significant improvements before and during COVID-19, we built on our strong net debt position from the first half and further improved our cash conversion days. These improvements have been driven through an inventory optimisation program that introduced world leading artificial intelligence machine learning, utilising real time consumer behaviour and buyer data, in addition to further improvements in debtor and creditor management. These improvements will enable further growth in Priceline Pharmacy and Clear Skincare.

Our ongoing cost reduction program that included the closure of two Distribution Centres has driven a significant reduction in our cost of doing business to 10.2%³, a reduction of 70bps on the pcp," API's CEO & Managing Director, Mr Richard Vincent said.

API reported underlying Return on Equity of 6.36% and underlying Return on Capital Employed of 10.35%, both down on the prior year reflecting the temporary closure of our retail businesses.

API also reported the write down of the Soul Pattinson Chemist brand name of \$37.5 million (pre-tax) and restructuring and reorganisation costs totalling \$12.3 million (post-tax).

² Excluding the impact of AASB16 Leases

³ Underlying cost of doing business excluding AASB16, the impact of Hepatitis-C medicines and depreciation



"We will continue to provide retail and dispensary services to our Soul Pattinson Chemist members, and we have over 1,500 members in all of our brand and retail pharmacy programs, an increase of 42 stores on prior year," Mr Vincent said.

The restructuring and reorganisation costs related to a combination of Priceline store and Distribution Centre closures and COVID-19 driven restructuring and reorganisation costs.

Operational performance – Pharmacy Distribution

API had a particularly strong second half that propelled the division to total revenue, excluding Hepatitis C, of \$2.9bn, which is up 6.1%.

"We continued to win new business and increase market share. We recently won the largest pharmacy banner in WA, the 777 Group with over 60 pharmacies, which will benefit us in the FY21 year. We achieved efficiencies by closing our Canberra and Newcastle DCs and consolidating their volumes into our Camellia operation.

"Our new automated Sydney distribution centre, for which we have budgeted \$50.0 million capex, will drive further efficiencies and greater flexibility once completed in 2022.

"Since 1 July, we have begun to benefit from the certainty provided through the 7th Community Pharmacy Agreement. It was a very important milestone because it enables us to now offset inflationary costs and allows us to invest with confidence in further streamlining our distribution network.

"I would like to thank the Department of Health and the Minister. The Agreement reflects their recognition of the vital role that full-line distributors play in ensuring all Australians have access to the medicines they need, when they need them. That was most starkly evidenced during the bushfire emergency and now during COVID-19," Mr Vincent said.

Operational performance – Priceline Pharmacy

Total network sales for the year ending 31 August 2020 were \$2.0 billion, down 5.2% on the prior year. Like-for-like sales for the front of shop, declined 5.98% on the prior year and declined 2.6% including dispensary. Gross profit was down 14.3% on the prior year reflecting a move away from high margin categories including colour cosmetics and cold and flu medicines as COVID-19 changed customer buying patterns.

"This result reflects the strength of the Priceline Pharmacy brand, given that 22 of our non-pharmacy stores were closed during the mandated Victorian closures of non-essential retail. Also, those Priceline Pharmacy stores located in the nation's CBDs or in non-grocery sections of major shopping centres saw sharp drop-offs in foot traffic during the pandemic's worst periods.

"Our Sister Club program is already one of Australia's best performing loyalty programs and we've invested further to provide better, more personalised rewards to our highest margin and highest spending customers.



"Our online sales, which are a combination of our Click & Collect and Click & Deliver services, were up 69% on the prior year, with most of that growth occurring in the second half. Our Priceline Pharmacy online offering is going from strength to strength and our timing was good in that we were up and running before COVID-19 hit. We launched Click & Collect in January 2020 and this has grown significantly through the year. Since COVID-19, the business has averaged a 116% increase in sales via this channel.

"Consumer behaviour has shifted considerably during the year. Shoppers are much more value and health conscious. We have always been known as a value destination for beauty and in the last two years we have been investing significantly in our health offering.

"For example, we have already rolled-out in-store health stations that allow shoppers to check key health measures like their blood pressure, body mass index and heart rate. Also, those customers who need a script renewed urgently but can't get to their GP, can use our Scripts Now service for over 300 chronic medications. Our aim is to make Priceline Pharmacy every bit as famous for health as it is for beauty," Mr Vincent said.

API said its total Priceline store network stood at 474 as of 31 August. That is a reduction of a net 14 stores on the previous year.

"We have taken the decision to close some of our company-owned (non-pharmacy) stores, mostly in CBD locations. This process was in train before the impact of COVID-19 and we have accelerated it since. Pleasingly the pipeline of independent pharmacists looking to join the network remains very strong and has not been impacted by COVID-19," Mr Vincent said.

Operational performance – Clear Skincare

Clear Skincare's performance was strong in the first half, both in terms of sales and network expansion. The network grew from 52 to 67 clinics to the year ending 31 August 2020. Mandatory closures affected the whole network in Australia and New Zealand at various times during the pandemic.

"Overall, sales volumes were \$40.3 million, down 11.7% on the previous year as a result of enforced closures. We were able to access JobKeeper and New Zealand's equivalent wage subsidy to keep Clear Skincare staff employed.

"Since Clear Skincare clinics have reopened, demand for products and services has been significantly higher than the comparable period a year ago. While we were anticipating growth, there's clearly an even greater emphasis as a result of COVID-19 for consumers, particularly women, to keep their skin looking healthy. Demand for in-clinic cosmetic injectable treatments is up 61% on the comparable period in all states where our clinics have re-opened. Much of this is pent-up demand but our clinicians are also reporting a significant increase in new clients," Mr Vincent said.



Operational performance – Consumer Brands

COVID-19 had a negative impact on API's ability to source raw materials from countries such as India and China, and delayed the re-launch of its Health Basics range of body wash products. In addition, social distancing meant that demand for our core range of cold and flu remedies reduced significantly. Despite overall sales declining by 18.3% on the prior year, Consumer Brands continued to invest, broadening the range to over 590 products.

Dividend

The API Board has declared a fully franked final dividend of 2.0 cents per share, representing a payout ratio of 33% on underlying NPAT. The dividend is to be paid on 15 December 2020 and the record date for the dividend is 12 November 2020. The company did not declare a dividend in the first half given the extreme uncertainties created by the COVID-19 pandemic and the need to take remedial action to preserve cash.

Outlook

Mr Vincent said that API was very well positioned for 2021 and beyond.

"Our focus on sound capital management is evident in our balance sheet and we will secure more efficiencies in the coming year. The commencement of the 7th CPA will also provide additional funding to address rising distribution costs.

"Pharmacy Distribution has new business that will drive growth and cash generation.

"Priceline Pharmacy is very well positioned to take full advantage of the shift to value-based beauty and health products and services. We expect to see significant network expansion during 2021 as more independent pharmacists seek the benefits that our brand and systems will deliver to their bottom line.

"Clear Skincare is well poised to service the increasing demand for skincare and non-invasive cosmetic treatments and we will continue the expansion of our clinic network.

"We have seen both of our retail businesses rebound strongly in states that have emerged from COVID-19.

"Importantly, we have all the capex we need to fully exploit the growth opportunities inherent in Priceline Pharmacy, Clear Skincare, Consumer Brands and our ecommerce platform, as well as invest in new opportunities that complement our health and beauty focus," Mr Vincent said.

"While the on-going economic uncertainty persists, we cannot offer earnings guidance but the fundamentals to deliver strong forward momentum are all in place," Mr Vincent said.



API also confirmed discussions had taken place with Government about the wholesalers' role in distributing a potential vaccine for COVID-19.

"If and when a vaccine becomes available, a co-ordinated, whole of healthcare approach involving GPs, nurses, hospitals, aged care homes and pharmacists will serve Australia well again. The strength of our pharmacy distribution system in delivering vital medicines during the bushfire and COVID-19 emergencies was clearly demonstrated and we stand ready to play whatever part the Government determines is necessary to ensure speedy delivery of a vaccine to the Australian community," Mr Vincent said.

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