



# FY20 FULL YEAR RESULTS

AUDIO WEBCAST  
THURSDAY 22 OCTOBER 2020

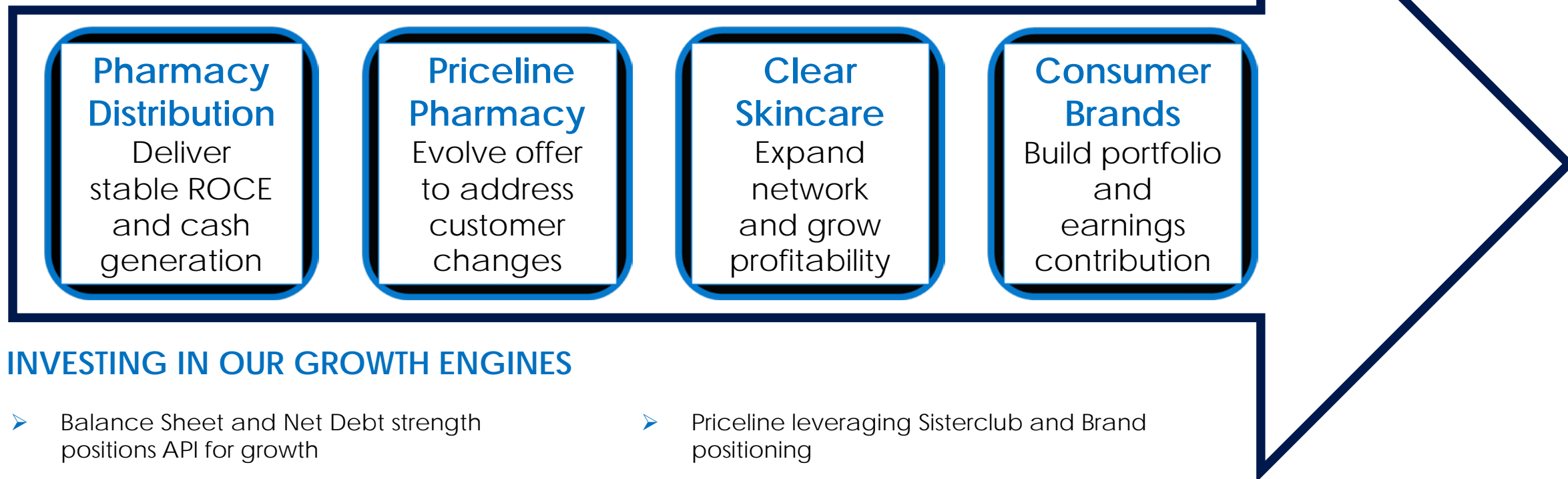
RICHARD VINCENT, CEO & MANAGING DIRECTOR  
PETER MENDO, CHIEF FINANCIAL OFFICER

# 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.

# Strategic direction



## INVESTING IN OUR GROWTH ENGINES

- Balance Sheet and Net Debt strength positions API for growth
- Permanently lowered our cost base
- Sydney DC to drive further efficiencies through the network
- Priceline leveraging Sisterclub and Brand positioning
- Health offering expands with eScripts and Scripts Now
- Expanding Clear Skincare footprint and services

PROGRESS CONTINUED IN H2 DESPITE COVID-19

# FY20 Financial Snapshot

## HIGHLIGHTS

- Revenue growth in current environment proves resilience of our businesses
- Result builds on the reengineering started pre COVID-19 and sets up well for post COVID-19 environment
- Underlying EBIT and Underlying NPAT solid given lockdown restrictions
- Very strong Balance Sheet with Net Debt of \$18m to support significant growth
- CODB<sup>1</sup> down 70bps on pcp due to cost savings initiatives
- Final dividend of 2.0¢, representing a payout of 33% of Underlying NPAT

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

Revenue

**\$4.0bn**

+0.2%



Underlying EBIT<sup>1</sup>

**\$56.3m**

-40.1%



Underlying NPAT<sup>1</sup>

**\$32.5m**

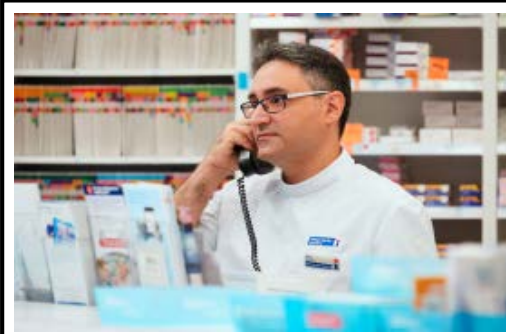
-42.6%



CODB<sup>1</sup>

**10.2%**

-70bps



Final dividend

**2.0¢**

# COVID-19 AND API

API continues to benefit from its efficient national distribution network, the non-discretionary nature of its products & services and efficient working capital which have been beneficial throughout COVID-19

## Focus on safety and support

- Implemented measures to protect the health and safety of staff and customers
- Extended working from home capabilities and leave requirements to staff
- Staff engagement has increased further throughout COVID-19, we have strong communications and culture

## Changes in customer demand

- Pharmacy Distribution & Priceline experienced unprecedented demand in March as consumers brought forward spend on ethical & over-the-counter products
- Lower foot traffic experienced in April and May due to Government restrictions
- Broadly normal trading from June when online trade is included and Victoria excluded
- Clear Skincare clinics and Priceline company stores (non pharmacies) experienced significant demand upon re-opening
- We have noticed a significant shift in consumer spending towards products and services that address physical and mental wellbeing and towards value, both of which fits our offering

## Accelerated investment in growth assets

- Omni channel retail experience with in store, online, Click & Collect and Click & Deliver available
- We continue to experience significant online demand for Priceline and for Clear Skincare products
- Scripts Now service provides convenience when it is not possible to a visit GP clinic
- Sisterclub relaunched with capability to grow

# FY20 Result Review

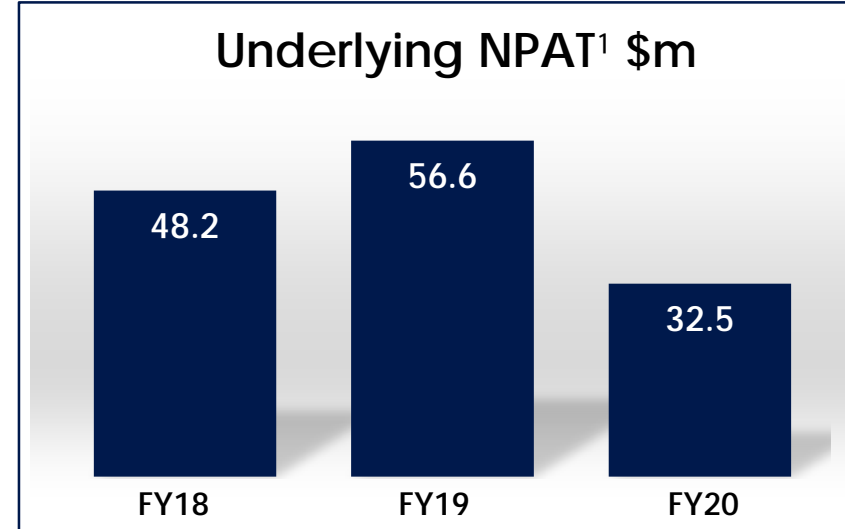
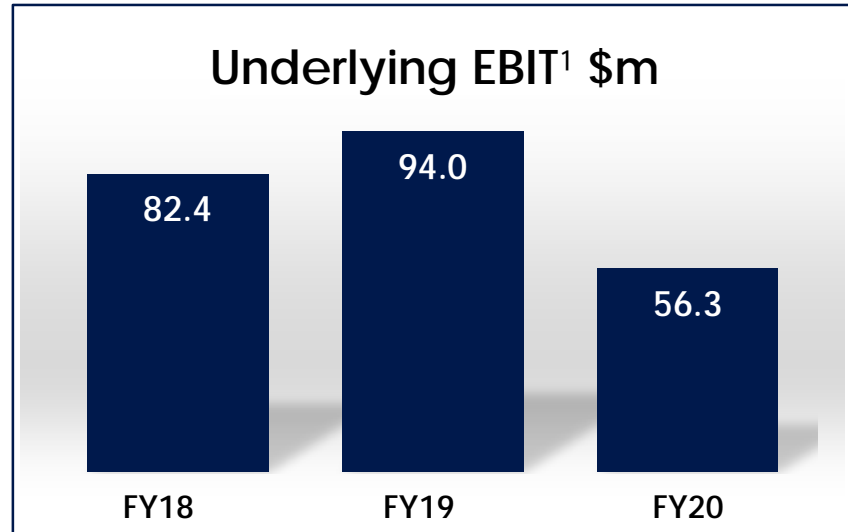
Underlying results <sup>1</sup> \$'m	FY20 Underlying excl AASB16	FY19 Underlying pre AASB16	Variance %
Sales	4,019.5	4,010.7	0.2%
Gross Profit	474.5	518.3	(8.5%)
Other Income	14.5	27.5	(47.4%)
CODB	401.6	422.7	(5.0%)
<b>EBITDA</b>	<b>87.3</b>	<b>123.1</b>	(29.1%)
Depreciation	31.0	29.1	6.7%
<b>EBIT</b>	<b>56.3</b>	<b>94.0</b>	(40.1%)
Interest	13.2	20.3	(34.7%)
Tax	10.6	17.2	(38.2%)
<b>Net Profit After Tax</b>	<b>32.5</b>	<b>56.6</b>	(42.6%)

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

## UNDERLYING RESULT RESILIENT DESPITE COVID-19

- AASB16 reduced EBIT by \$3.2m and increased NPAT by \$1.8m
- Sales held up despite Priceline and Clear Skincare closures
- Gross Profit impacted by reduced sales and sales mix in Priceline –
  - High volume and margin colour cosmetics sales reduced as our customers worked from home
  - High margin cold and flu sales reduced due to distancing
- Other Income prior year contained a significant provision release for contingent consideration
- CODB reduced reflecting ongoing cost savings
- Interest reduction reflects lower debt levels combined with lower interest rates

# Financial overview



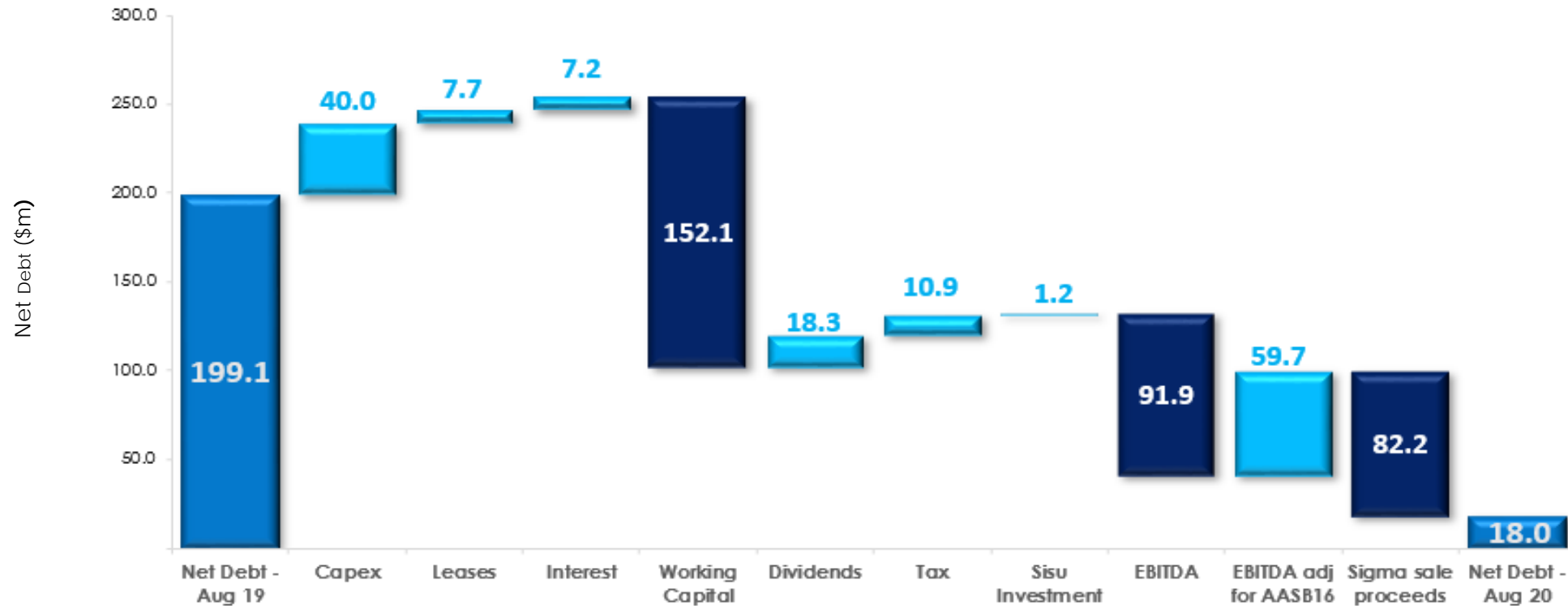
## REFLECTS IMPACT OF COVID-19 ON RETAIL BUSINESSES

- Result is in line with expectations despite challenging retail conditions, with Underlying EBIT down 40.1% and Underlying NPAT down 42.6%
- Underlying adjustments:
  - Write down Soul Pattinson brand impact \$37.5m pre-tax
  - Restructuring and Reorganisation \$12.3m post-tax

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

# Debt management

## NET DEBT SIGNIFICANTLY IMPROVED



Net Debt<sup>1</sup> at 31 August 2020 was \$18.0m down from \$199.1m at 31 August 2019

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



# Working capital

## STRONG WORKING CAPITAL AND NET DEBT POSITION

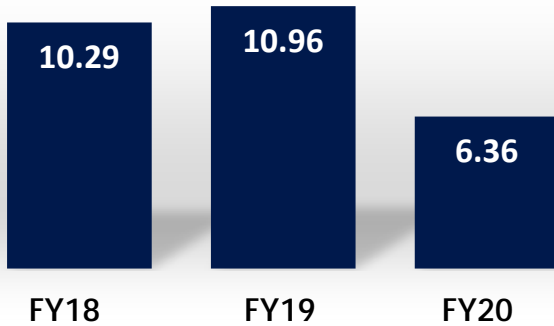
- Significant improvement in working capital cash conversion days reflecting inventory optimisation and a focus on debtor collections
- Cash generated including \$152.1m working capital used to repay debt with Net Debt at \$18m
- Debt facilities all well in excess of 12 months to termination date and strong bank relationships
- Net finance costs \$19.1m, reduces to \$12.5m when \$5.9m relating to AASB16 and \$0.7m relating to cost of Sigma shareholding are excluded

Working Capital days <sup>1</sup>	FY19	HY20	FY20
Trade Debtor Days	39.2	37.2	39.0
Inventory Days	39.3	38.3	34.6
Trade Payable Days	57.4	53.5	56.8
Cash Conversion Days	21.1	22.0	16.8

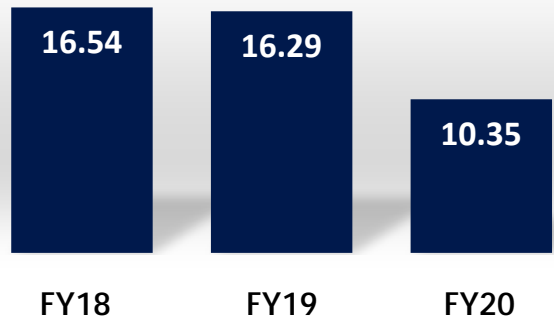
<sup>1</sup> Refer to Appendix 1 for all definitions

# Capital management

## Underlying ROE<sup>1</sup>%



## Underlying ROCE<sup>1</sup>%



## CAPITAL MANAGEMENT OUTLOOK

- Sharp focus on cash management during FY20 and remains a priority
- Clear Skincare acquisition payment \$33m made post year end and final payment due September 2021
- Strong Balance Sheet allows the funding of the new Sydney DC from operating cash flow

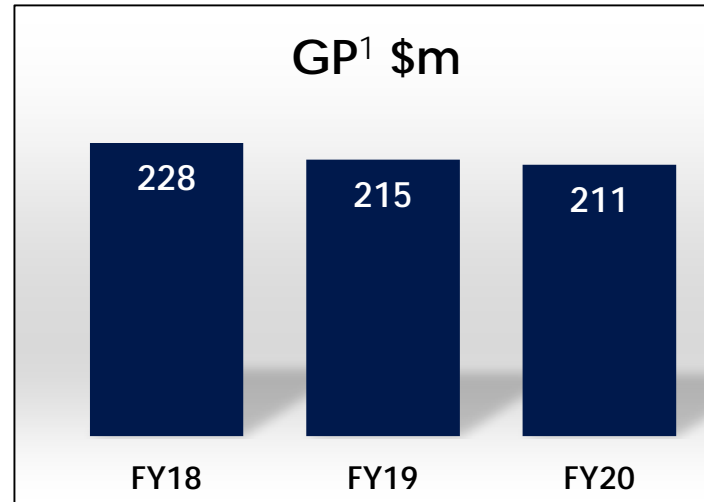
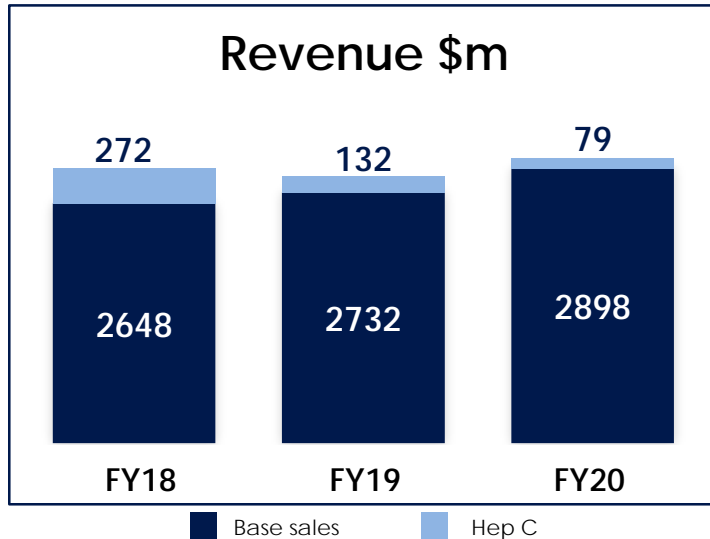
## RETURNS TO SHAREHOLDERS WILL NORMALISE POST COVID-19

- Underlying ROE and Underlying ROCE reflect the Priceline company store and Clear Skincare clinic temporary closures
- Positioned for growth with a lower cost base and strong balance sheet
- 2.0¢ final dividend

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

# PHARMACY DISTRIBUTION

# Pharmacy Distribution results



## NEW BUSINESS WON AND STRONG COST CONTROL

- Growth in Pharmacy Revenue excluding Hepatitis C up 6.1%
- Benefited from retaining and adding new pharmacy groups
- COVID-19 and bushfires proved capacity and resilience of the supply chain, a new Sydney DC will enhance this further
- 7CPA commenced 1 July 2020 for 5 years with additional CSO funding and a floor price

<sup>1</sup> Refer appendix 1 for all definitions

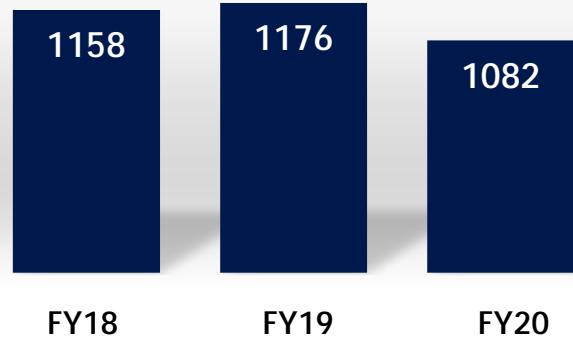


# PRICELINE PHARMACY

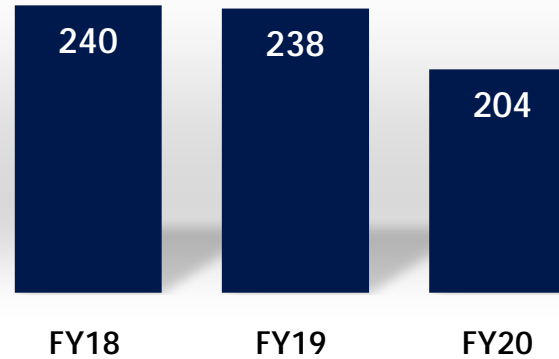


# Priceline Pharmacy results

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



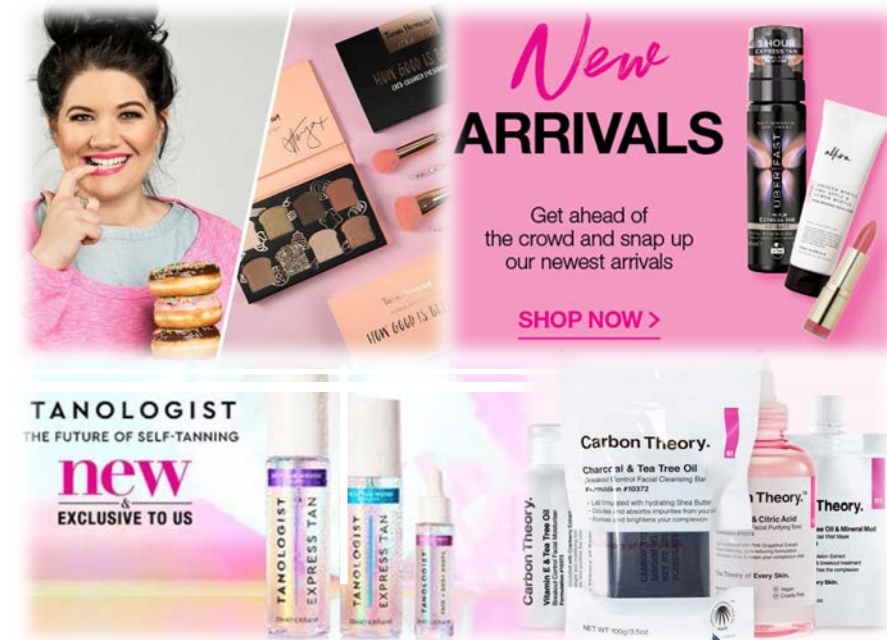
GP<sup>1</sup> \$m



## RETAIL MARKET IMPACTED BY LOCKDOWNS AND REDUCED FOOT TRAFFIC

- Retail Network Revenue<sup>1</sup> of \$2.1 billion, a reduction of 5.2%
- Retail GP reflects mandated store closures in Victoria resulting in reduction in sales, particularly in high margin colour cosmetics, and cold and flu categories
- LFLs<sup>1</sup> of -5.98%, including the dispensary LFL<sup>1</sup> result is -2.6%
- 474 stores with an optimised network for profitable growth
- Online sales up 69% year on year

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



# Priceline Pharmacy initiatives

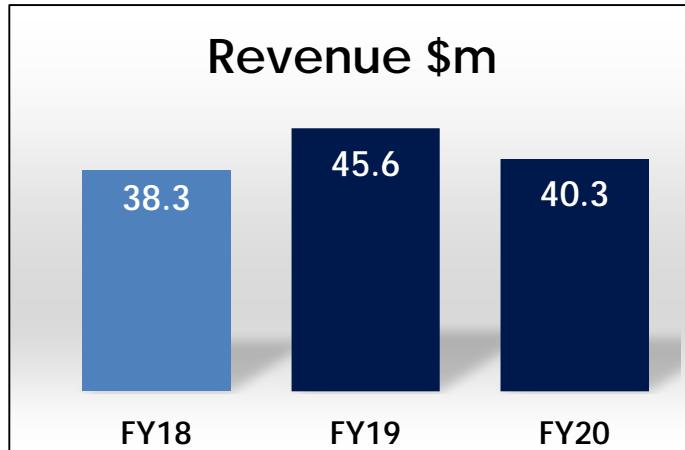
- **eCommerce platform** proven successful through COVID-19, we have the leading offer in health and beauty leveraging our national footprint
  - Online store growth
  - **Click & Collect** from our store network
  - **Click & Deliver** from stores launched and growing rapidly
  - Delivery times are impressive
- Leading the market with **eScripts**, online tele-doctoring via **Scripts Now** and in store health stations and services
- Launched **Brand Belief** that will drive improvements in customer service and engagement
- Launched new and exclusive **brands**, including Tanologist, Carbon Theory and Models Prefer by Tanya Hennessy collection
- Investment in **Sister Club** enabling deeper **customer insights**, more targeting marketing and greater rewards for the faithful



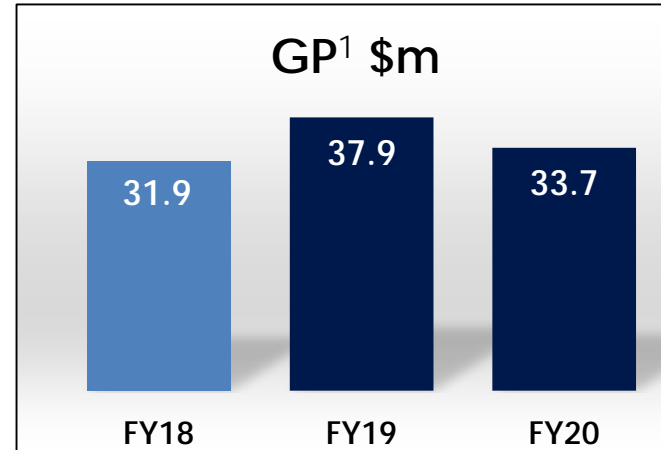
# CLEAR SKINCARE



# Clear Skincare results



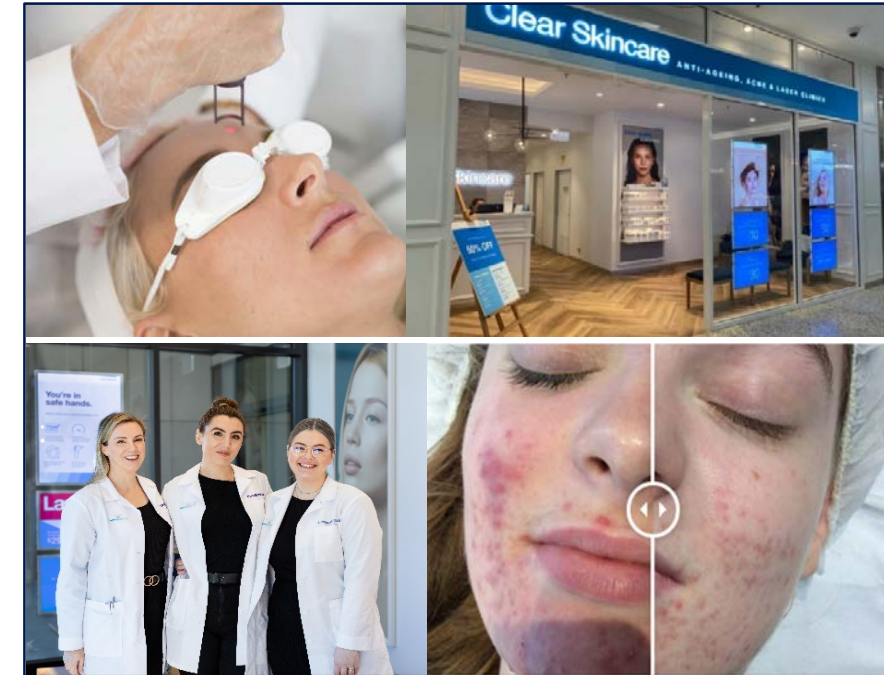
■ API owned Clear Skincare for 1 month in FY18



■ API owned Clear Skincare for 1 month in FY18

## WILL BENEFIT FROM STORE GROWTH AND HIGH MARGIN SERVICES

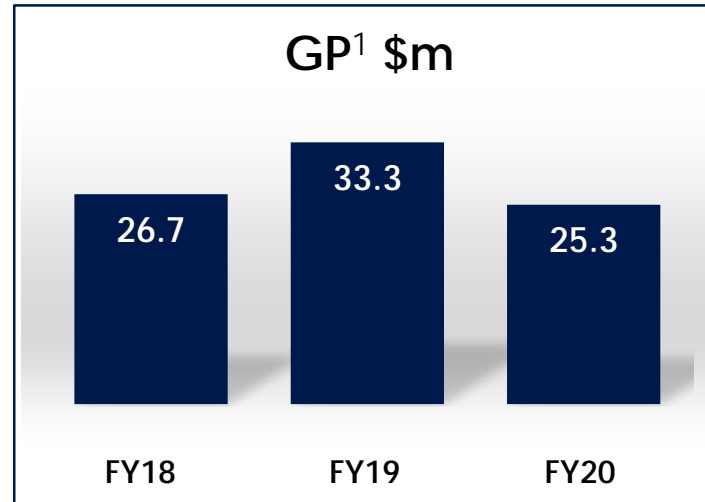
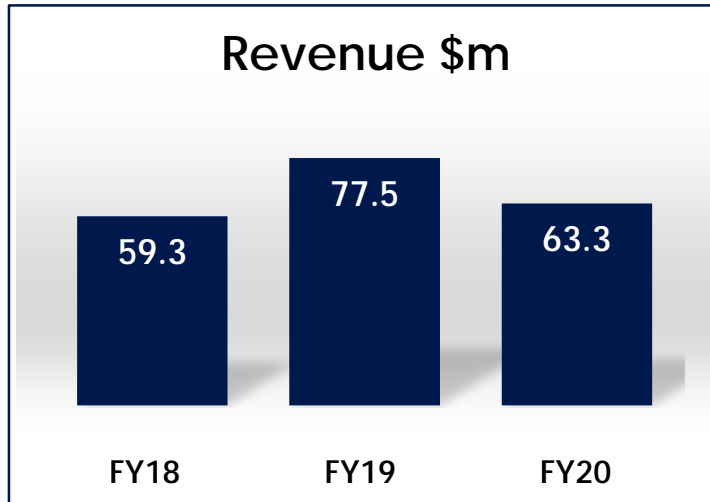
- Revenue down 11.7% and Gross Profit down 11.1% reflecting clinics closures
- 67 clinics at year end up 15 over the year with a strong pipeline of new clinics – number 2 in the market
- Launched Clear Skincare@home online sales to drive product sales and maintain customer engagement, delivered growth in online sales of over 1,000%
- Broadened service offering introducing higher margin products including Skin Pen and HydraFacial
- After care market opportunity emerged through C19



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

# CONSUMER BRANDS

# Consumer Brands results



## POSITIONED FOR GROWTH POST COVID-19 WITH ENHANCED PRODUCT RANGE

- Not immune to effects of COVID-19 with delays in sourcing raw material and reduced cold and flu sales due to reduced sickness
- Increased its range of products significantly, particularly in generics and skincare, and now produces over 590 products
- Responded nimbly to COVID-19 - producing half a million units of hand sanitiser at the beginning of the pandemic



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

# Outlook



# FY21 Outlook

- 7CPA additional funding combined with ongoing benefit of cost savings to provide certainty to invest and uplift for FY21
- Pharmacy Distribution business trading up on FY20 and non-COVID-19 states provide confidence for return to growth in Priceline and Clear Skincare
- Efficient Balance Sheet positions API to take advantage of significant growth opportunities
- Sydney DC progressing on time and budget, will result in a highly automated industry leading Distribution Centre
- Capex to fund new Skincare clinics and growth initiatives in Priceline
- Proven success of ecommerce and relaunched Sister Club
- In Victoria Priceline stores and Clear Skincare to open imminently subject to Government guidelines
- Due to fluid market conditions cannot provide an earnings outlook



# 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 31 August 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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- Average Equity – average of the opening and closing equity balance
- Average Total Capital Employed – average the opening and closing of the combination of equity, net debt and tax balances
- CODB – cost of doing business excluding the impact of Hep C, depreciation and AASB16
- EBITDA - Result from operating activities before interest, tax, depreciation and amortisation
- EBIT – Result from operating activities before interest and tax
- GP – gross profit
- LFLs – like for like sales comparing the same store sales between periods
- Net Debt – Borrowings less cash and cash equivalents
- NPAT - Result from operating activities after interest and tax
- Underlying NPAT – NPAT calculated excluding the underlying adjustments (outlined on slide 7 and excluding AASB16)
- Underlying EBIT – EBIT calculated excluding the underlying adjustments (outlined on slide 7 and excluding AASB16)
- Underlying Return on Capital Employed (ROCE) – Underlying EBIT/Average Total Capital Employed (excluding AASB16)
- Underlying Return on Equity (ROE) – Underlying NPAT/Average Equity excluding AASB16
- pcp – 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
- Underlying results – calculated excluding the underlying adjustments (outlined on slide 7)
- Working Capital days - calculated excluding the impact of API Rewards on Trade Debtor and Trade Creditor balances



# Appendix 2 income statement reconciliation

In \$000	FY20 Reported	Less: AASB16	FY20 Reported (Ex-AASB16)	Add Back: Restructure & Reorganisation	Add Back: Impairment	FY20 Underlying (Ex-AASB16)
EBITDA	\$91,940	(\$59,725)	\$32,215	\$17,619	\$37,500	\$87,334
Depreciation & Amortisation	(\$87,508)	\$56,504	(\$31,004)			(\$31,004)
EBIT	\$4,432	(\$3,221)	\$1,211	\$17,619	\$37,500	\$56,330
Interest	(\$19,079)	\$5,823	(\$13,256)			(\$13,256)
PBT	(\$14,647)	\$2,602	(\$12,046)	\$17,619	\$37,500	\$43,073
Tax Expense	\$6,710	(\$781)	\$5,929	(\$5,286)	(\$11,250)	(\$10,607)
NPAT	(\$7,937)	\$1,821	(\$6,117)	\$12,334	\$26,250	\$32,468
Less: Attributable to NCI	(\$458)		(\$458)			(\$458)
NPAT (attributable to API)	(\$8,395)	\$1,821	(\$6,574)	\$12,334	\$26,250	\$32,009