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# 2021 HALF YEAR RESULTS REVENUE HELD UP WELL, PROFIT HIT BY COVID RETAIL IMPACTS MAJOR DIGITAL INVESTMENTS FUELLING GROWTH BUSINESSES

#### **Financial Performance**

- Total revenue was \$2.0 billion, down 2.6% on prior corresponding period (pcp)
- Reported Earnings before Interest and Tax (EBIT) was \$29.4 million, down 25.2% on pcp
- Underlying EBIT was \$32.0 million, down 26.5% on pcp
- Reported Net profit after Tax (NPAT) was \$15.9 million, down 29.3% on pcp
- Underlying NPAT was \$17.7 million, down 30.3% on pcp
- Interim dividend of 1.5 cents, representing a payout of 47% of NPAT

## **Strategic & Operational Highlights**

- Pharmacy Distribution prescription medicine growth versus pcp was in line with market growth
- Majority of Priceline stores reflecting like-for-like growth outside of CBD stores
- Clear Skincare has bounced back strongly post extensive lockdowns
- Invested \$50.5 million over the half year in retail digital assets, Clear Skincare acquisition tranche, new clinics and the NSW distribution centre
- NSW distribution centre development on schedule and on budget
- Accelerated expansion of Clear Skincare network and product offering, as API ownership has increased customer traffic and average value per customer - up 54% since acquisition
- Enhanced suite of health services launched MediMate dose administration service, expanded the capability of in-store digital health stations, and increased take up of eScripts and online tele-doctoring
- Further improvement in working capital management with cash conversion days
   17.8, down 4.2 days on pcp







 Reduced cost of doing business<sup>1</sup> to 10.6%, 20 basis points less than pcp with \$38 million costs pa removed

Australian Pharmaceutical Industries (API) announced today, for the half year ending 28 February 2021, underlying EBIT was \$32.0 million, down 26.5% on the pcp, and underlying NPAT, was \$17.7 million, down 30.3 per cent on the pcp all stemming from the effect of COVID over the period.

API's CEO and Managing Director, Richard Vincent said:

- "These results reflect the impact of pandemic-related lockdown restrictions and lower CBD foot traffic on API's retail businesses in Australia and New Zealand compared to the pcp, which was unaffected by COVID. Priceline Pharmacy's like-for-like sales were down significantly in its two largest CBDs with Melbourne down by 65% and Sydney down by 51%.
- "Our trading result is in line with the level indicated at our AGM in January. The Melbourne lockdown persisted into early November and we had further lockdowns in December in parts of Sydney and Auckland. While CBD foot traffic is slowly recovering, it was well below the prior period and consequently first half retail trading results are significantly below last year's COVID-free result.
- "Overall, the fact that our revenue is only down 2.6%, on the prior period, points to the resilience of our business model.
- "We invested \$50.5 million over the half on retail digital development projects and on the opening of new Clear Skincare clinics to fuel future growth in our retail businesses. This spend includes a Clear Skincare acquisition tranche and an instalment for construction of the NSW distribution centre. Despite this additional expenditure, reported net debt was up only 3.8% on the pcp, to \$134.6 million, reflecting our ongoing disciplined approach to cash and working capital management.
- "Our focus on efficient working capital is also reflected in our cash conversion days which were 17.8, a reduction of 4.2 days on the pcp.

API reported Underlying Return on Equity of 4.63%, and underlying Return on Capital Employed of 8.32%. The decline in both of these metrics reflects 12 months of COVID retail trading impacts compared to the COVID-free pcp.

API reduced its cost of doing business by 20 basis points on the prior period, reflecting an on-going disciplined focus on cost management. This strong reduction in costs was achieved despite the substantial impact of additional head count during the year from 16 new Clear Skincare clinics.

"COVID has not stymied our expansion of the Clear Skincare network. We have the second largest network of non-surgical aesthetics clinics in Australia, and we will continue to invest to grow our market position and generate significant profit growth in future years.

<sup>&</sup>lt;sup>1</sup> Underlying cost of doing business excluding AASB16 and Hepatitis C impact.



"Our recent investment in Priceline Pharmacy's Sisterclub loyalty program is already paying dividends with approximately \$300 million in front-of-shop sales in the half coming from our members. Retail register revenue from Sisterclub members increased to 56.1% compared to 54.3% in the previous half. Before COVID hit we also invested in improving our health offering via intelligent machine health checks and eScripts, and we can see the benefits of that investment through spend on scripts moving into positive territory," Mr Vincent said.

# Operational Performance - Pharmacy Distribution

Pharmacy Distribution revenue was steady at \$1.46 billion, down 0.9% on the pcp. This result reflects the loss of Chemist Warehouse OTC volume after the conclusion of the temporary arrangement with them. This was largely offset by the expansion of API's independent community pharmacy distribution business, resulting in gross profit increasing to \$114 million from \$112 million on the pcp. The increase in gross profit also reflects the recently negotiated wholesaler remuneration as part of the 7th Community Pharmacy Agreement (7th CPA).

"Pharmacy Distribution remains a highly reliable and formidable cash generating business funding investment in our growth businesses.

"With the 7th CPA providing certainty of funding out to 2025, we have commenced building the new NSW distribution centre, which will employ leading edge technology throughout. The benefits we'll reap from our investment in the Marsden Park distribution centre, allied to further initiatives to streamline our distribution network, means we can be confident of ongoing robust returns on capital employed and future cash generation," Mr Vincent said.

# Operational performance - Priceline Pharmacy

Retail register revenue was down 10.7% to \$526 million and gross profit was down 8.0% to \$103 million.

- "Priceline's large CBD footprint is impacting the speed of our recovery but we are confident in the business model, the strength of which is evident in strong like-for-like sales growth in suburban stores and in those states that were largely COVID-free, and in the fact that we held our market share despite a reduction in the market demand for cosmetics.
- "We continue to re-negotiate leasing agreements with our CBD landlords and these negotiations are helped by our proven determination to close stores where we cannot achieve satisfactory rental agreements.
- "Total network revenue, which includes dispensary revenue, was down by a lesser factor of 4.1%. The fact that our dispensary sales have held up so well during this COVID-impacted period reflects our investment in health services.



- "We have digital health stations in our pharmacies that allow people to check key health measures like blood pressure, heart rate, body mass index and diabetes risk. Linked to these health stations we have an online-doctoring service called Scripts Now that allows people to get script repeats when they can't get to their GP. We've also launched MediMate, a digital dose administration offering.
- "These digital investments have already provided Priceline Pharmacy with a major point of difference to other community pharmacies, and we have more innovations in the pipeline," Mr Vincent said.
- "Store network numbers remained unchanged at 474 stores. We expect Priceline Pharmacy franchise store numbers to grow in the second half as we partner with franchisees to open new stores in high traffic areas with significant profit potential. With the shift in consumer foot traffic there may be further closures of non-pharmacy companyowned stores.
- "We were ahead of most of our competitors with the rollout of our online offering. Our 'click and collect' service was already fully operational by the time COVID hit and the rollout of our 'click and deliver' option had also commenced. So, we were in a very good position to leverage the major shift in consumer shopping behaviour that was accelerated by COVID and our online sales saw a huge increase on the pcp, up 52%. With our 474 stores nationwide we typically offer faster home delivery than our competitors," Mr Vincent said.

Priceline Pharmacy launched 13 new and exclusive health and beauty brands during the first half.

- "Having on-trend exclusive offerings, particularly in beauty, is a critical component in driving foot traffic, so this remains a key focus for us.
- "Overall, the combination of our investments in health and beauty, allied to improvements in our loyalty club platform, has led to an increase in our customer Net Promoter Score. At the same time, our franchisee satisfaction rating has increased significantly. Our franchise partners are 'clearly satisfied' with the Priceline Pharmacy offering and we have moved further above the franchise industry benchmark.
- "Also, I'm delighted to announce that *Boots No7*, the UK's favourite skincare range, will launch exclusively in Priceline Pharmacy mid-year and we believe our partnership with Walgreens Boots Alliance has great potential to help us keep ahead of the pack and take full advantage of a post-COVID bounce," Mr Vincent said.

<sup>&</sup>lt;sup>2</sup> Franchise Relationships Institute report on Priceline Pharmacy, ACE Franchise Partner Satisfaction Survey, March 2021



### Operational Performance - Clear Skincare

The accelerated expansion of the Clear Skincare network - up 16 clinics on the pcp, combined with huge pent-up demand for Clear Skincare's services post lockdowns - saw revenue increase by 11% on the pcp to \$27.3 million, despite clinics being closed for significant periods because of lockdowns.

"Non-surgical aesthetics is a high-trust business which over the medium-term rewards investment in highly trained and skilled professionals using the best technology available. We have seen strong growth in all our services with a 46% increase in sales of cosmetic injectables over the half year.

"Unlike some of our competitors, we own all our new clinics, so we can determine the pace of our rollout of a proven clinic format in high-traffic locations. It should be noted that we are in rapid expansion mode because new clinics in this sector typically take more than two years to become profitable. We have 34 clinics, that represents 45% of our network, that are less than two and half years old so this rapid expansion will cause a short-term drag on Clear Skincare's contribution to our profits.

"We have a strong early mover advantage in a growing market and good brand recognition. The application of our retail expertise, investment in a new website and online shopping experience and launch of new single-ingredient proprietary Clear Skincare products are clearly resonating with consumers. The average value per customer has increased by 54% since we acquired the business. All these factors give me confidence that we'll see steadily increasing profit growth from the Clear Skincare business in years to come," Mr Vincent said.

## Operational Performance - Consumer Brands

Despite the material impact of reduced demand for cold and flu lines and delays in delivery of product ingredients caused by the impact of COVID on supply chains, particularly from China and India, revenue and gross profit saw only marginal declines on pre-COVID levels, both down 3% to \$27.5 million and \$10.5 million, respectively.

"We've embarked on a structural review to protect ourselves against sudden shortages impacting the value creation of our private label and over the counter product ranges. Having our own brands remains a good profit generator, so we've broadened our product offering by 115 during the period, bringing our total range to over 700," Mr Vincent said.

## Dividend

The API Board has resolved to pay a fully franked interim dividend of 1.5 cents per share, representing a payout ratio of 47% of NPAT. The dividend is to be paid on 4 June 2021 and the record date for the dividend is 7 May 2021. API did not pay a dividend in the first half of the 2020 year, taking the view at that time that preserving cash was a prudent move given the extreme uncertainty caused by the COVID-19 pandemic; the FY21 interim dividend signals a return to growth.



#### Outlook

API remains confident about the growth potential of its two retail businesses and the reliability of its Pharmacy Distribution cash-generating business.

- "We've taken the necessary measures to ensure we have the balance sheet to grasp all the growth opportunities that we've identified for our existing businesses and to make any additional moves that we deem will increase shareholder value.
- "Our suburban retail businesses have rebounded strongly since COVID restrictions have eased and our negotiations with CBD landlords to achieve acceptable rental outcomes are ongoing.
- "Importantly, we've not let the need to manage COVID-19 impacts distract us from planning for the future.
- "We've made significant digital investments in the last year to prepare Priceline Pharmacy for growth, including in online shopping, instore health technologies, re-engineering our market leading loyalty program and securing new and exclusive product offerings and there will be further investments in this space over the next twelve months. Our strong track record in effectively managing flu vaccinations means we are better placed than most to quickly roll out COVID vaccinations. We're incredibly conscious of the responsibility we have to get the rollout right to reduce the risk of COVID breakouts in our community.
- "We're already accelerating our Clear Skincare network to take advantage of the considerable untapped demand out there for the range of treatments our clinics offer. Once established, these clinics will deliver significant profit growth for API shareholders.
- "So, assuming we do not experience any more major economic shocks, such as higher than anticipated unemployment levels, and on the basis that workers return to shopping in the CBDs, we expect our full year profit result to be broadly in line with current market expectations," Mr Vincent said.

For investor inquiries: For media inquiries:

Carolyn Ireland Gabriel McDowell +61 403 045 905 +61 417 260 918