23 April 2015

HALF YEAR RESULTS ANNOUNCEMENT

CORE ASSETS DRIVE 32.1%[1] PROFIT INCREASE

- **Net profit after tax (NPAT) of $21.3m; up 32.1% on underlying[1] NPAT for the prior corresponding period (pcp)**
- **Earnings before interest and tax (EBIT) of $38.6m up 17% on underlying[1] EBIT for the pcp**
- **Average net debt reduced $29.1m with interest cover now 4.6x**
- **Priceline/Priceline Pharmacy store network at 400, with 3.9% like-for-like sales growth[2]**
- **Consistent performance from Pharmacy Distribution with revenue growth of 1.4%**
- **Fully franked interim dividend of 2.0 cents per share, up 33% on pcp**

Australian Pharmaceutical Industries Limited (API) today reported NPAT of $21.3m for the six months to 28 February 2015, above the guidance of $21.1m provided on 4 March 2015 and up 32.1% on underlying[1] NPAT of $16.2m for the prior corresponding period (pcp).

The net profit increase is attributable to growth in earnings from its core businesses, a stronger financial position and disciplined cost control.

"The continued momentum in improved operational performance is delivering strong, sustainable profit for the company and a much improved balance sheet," API's CEO and Managing Director, Mr Stephen Roche said.

EBIT of $38.6m for the six months was up 17% on the underlying[1] EBIT for the pcp. Overall revenue was up 3.2% to $1.7b with operational expenses up 2.9% due to effective management programs to reduce costs and target spend in key areas.

"We're generating more growth from our core assets which in turn has enabled us to strengthen our overall financial position, with reductions in average net debt, financing costs and an increase in cash generated by the business," Mr Roche said.

Average net debt decreased by $29.1m, with net financing costs reduced by 26.7% to $7m. Cash generated from operations increased by $18.4m or 40% compared to the pcp and was used to accelerate the payment of debt facilities.

The oneERP project has been implemented as planned, with benefits to accrue from the next financial year.

"These results reflect that we have made the substantial investments required; brand repositioning, Supply Chain capacity and, now with the implementation of oneERP, new systems. All of these will ensure we continue to be competitive and drive value for shareholders," Mr Roche said.

Priceline Pharmacy continues to grow health and beauty leadership

Priceline and Priceline Pharmacy grew its store network, revenue and earnings, while sustaining store margins in line with the same period last year. Retail store sales growth was up 9.3% on the pcp, and like-for-like sales growth was up 3.9%[2]. Store numbers increased to a total of 400 compared to 373 in April 2014, and are predicted to reach approximately 420 by financial year end.

"We've joined an elite group of specialty retailers with more than 400 stores in Australia and there are still substantial expansion possibilities for the brand as we expect to hit our financial year target of 20 net new stores in June," Mr Roche said.

"We are continuing to inspire confidence into new franchise partners because the consumer offer is so strong. It is a combination of the range consumers want, with the best known brands and on-fashion trends, all at exceptional value," he said.

"We are using all our brand assets to dominate health and beauty events, integrating activities across our stores, services, on-line, traditional and social media to reach our customer base effectively which is generating higher foot traffic and sales."

The website had average monthly page views up 23% in the last six months to more than 9.1 million per month. The brand's social media assets had engagement levels up to double that of its health and beauty competition.

"Our activity is attracting even more people to join our Sister Club program, extending its pre-eminent position in this market with 5.2 million members. The program is integral to the brand as Sister Club members visit more often and spend more than any other customers," Mr Roche said.

"We are now extending our differentiation by providing our customers with the total health and beauty experience they will not find anywhere else through our investment in specialty services such as in-store makeovers and women's health checks."

Pharmacy Distribution maintains earnings in competitive market

API's Pharmacy Distribution business delivered to expectations with recorded revenue growth up 1.4% on the pcp to $1.23b and gross profit also increased by 1.4%, reflecting ongoing prudent trading terms' management.

"Pharmacy Distribution is a highly competitive market; we've grown revenue again despite significant competitor acquisitions of customers for market share," Mr Roche said.

"API has an ongoing program to provide progressive channel choices to cater to the different needs of pharmacy owners, whether that is full scale brand options or selection by service type.

"We are using our comprehensive services and our business advice to work closely with pharmacists to manage through the substantial industry changes," he said.

Following the restructure of the New Zealand operations in FY14 the results improved with sales up 14.7% to $20.9m and gross profit up 23.4% to $11.7m.

Dividend

Given the sustained operational and capital management performance, the API Board has declared a fully franked interim dividend of 2.0 cents per share, an increase from 1.5 cents, or 33%, on the pcp. The record date for the dividend is 8 May and the payment date is 5 June.

Outlook

API expects the business momentum will continue during the remainder of the financial year.

"We believe API has the foundation established with a growing retail brand, that won the 2014 Australian Retailer of Year, and a strong pharmacy distribution business. We expect to continue our strategic execution to deliver increased value," Mr. Roche said.

*Outlook is subject to; no material change in consumer or customer demand, a stable economic climate, and no unforeseen adjustments to the regulatory environment or reforms to the Pharmaceutical Benefits Scheme.

[1] This release should be read in conjunction with the Appendix 4D or Appendix 1 in the 1H15 Results Presentation. Underlying results are non-IFRS measures that API believes are appropriate to understanding its business and financial performance following impairment charges and associates contribution in prior financial periods.

[2] Excludes dispensary sales

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