AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

2015 HALF YEAR RESULTS PRESENTATION

THURSDAY 23 APRIL 2015

Important Notice

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

This presentation contains certain non-IFRS measures that API believe are relevant and appropriate for the understanding of the business. Refer to Appendix 1 for further information.

GROUP PERFORMANCE & STRATEGIC PRIORITIES

STEPHEN ROCHE
CEO & MANAGING DIRECTOR

Group performance

Strong financial & strategic position

- Underlying NPAT* up 32.1%
- Sales up 3.2%, underlying EBIT* up17%
- Average net debt down $29.1m and cash generation up 40%
- Further ROFE improvement to 12.4%
- Strategic position delivering results in new pharmacy environment
- Confidence in momentum and future performance

Organic growth from core assets

- Core assets delivering sustainable growth
- Priceline/Priceline Pharmacy a leading Australian retailer
- Pharmacy Distribution maintaining earnings in competitive market

Fundamentals underpin future

- Base investments are in place with oneERP implementation
- Complements Supply Chain, information systems, brand repositioning and franchise systems

* Refer Appendix 1

Strategic priorities from key assets

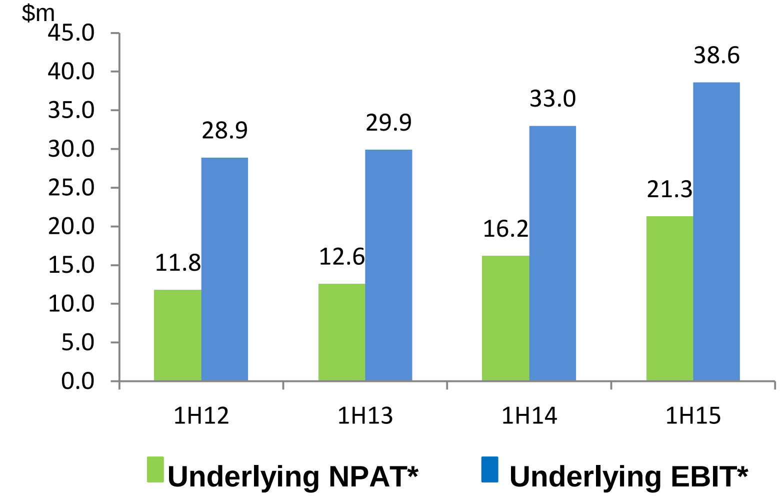
GROUP FINANCIALS

PETER MENDO
Interim CHIEF FINANCIAL OFFICER

Half Year financial highlights

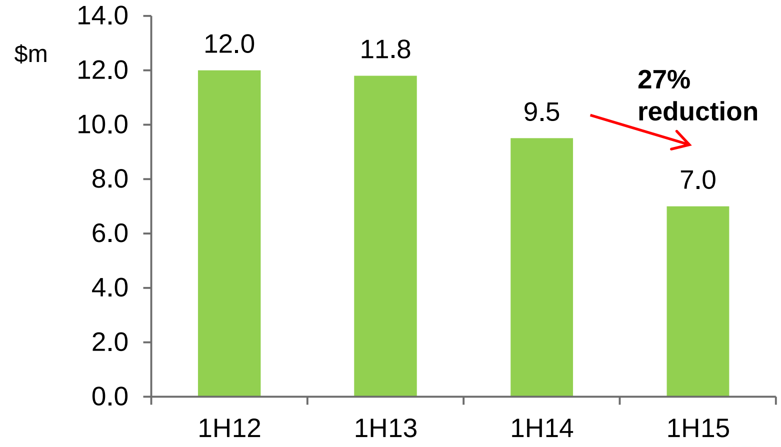
Sustained growth in operational performance

- Core business delivering underlying EBIT and NPAT growth
  - EBIT CAGR – 10%
  - NPAT CAGR – 22%
- Operational momentum has continued from organic growth



Clear balance sheet management

- Continued strong cash generation
- Continued debt reduction
- Focus on further improvements to cash conversion cycle



Net financing costs

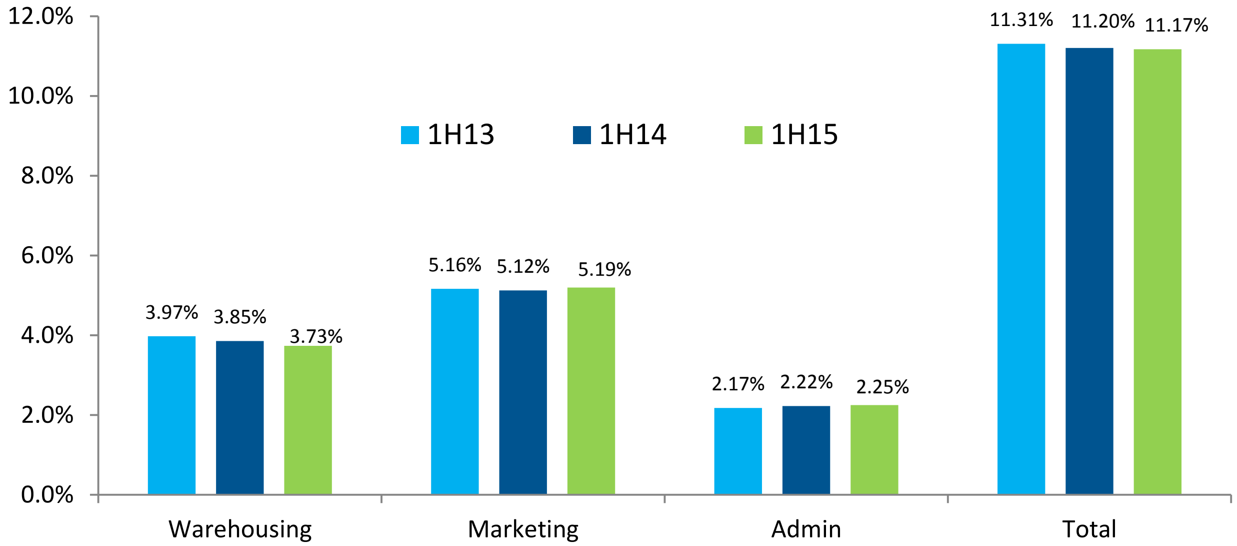
* Refer Appendix 1

Cost management

Operating costs – controlled and targeted

- Revenue and network growth achieved without increasing CODB
- Warehousing and distribution costs flat on last year with average cost per-unit-delivered improving 3%
- Investment in marketing and sales reflects; increased media activity through key periods and sales team development
- Cost management focussed on making processes more efficient while investing in sales driving activities

Costs as % of revenue



Working capital

A$m	1H15	FY14
Trade & other receivables	519	566
Inventories	328	342
Trade & other payables	572	615
Net Working Capital	**275**	**293**
Trade debtors days	38.0	43.7
Inventories days	40.8	43.6
Trade payables days	46.6	50.6
Cash Conversion Cycle	**32.1**	**36.7**

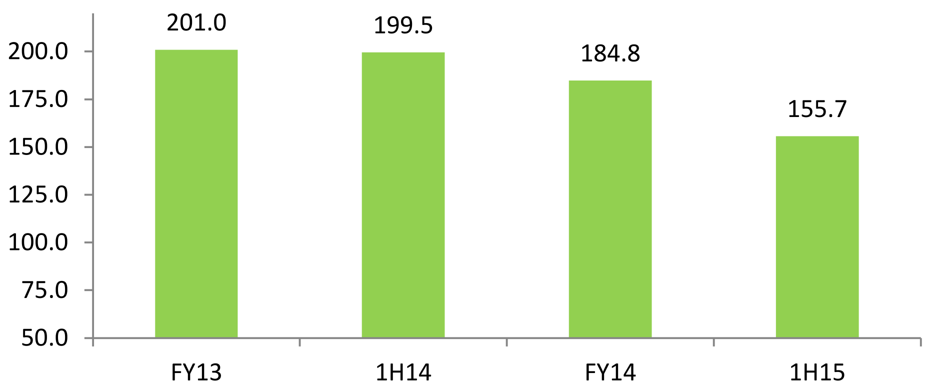
- **Improvement in overall net working capital with improvements in debtors days and inventory leading to better cash conversion cycle**

Cashflow

A$m	1H15	1H14
Cash generated from Operations	64.4	46.0
Capital Expenditure	(15.1)	(12.2)
Free cash	**49.6**	**36.4**
Debt Reduction	(36.5)	(11.7)
Dividend	(9.8)	(8.5)
Net movement in cash	**(9.9)**	**(0.7)**

- **Strong cash generation from operating activities**
- **Capex reflects oneERP investment**
- **Debt reduction will continue**

Debt metrics improvement



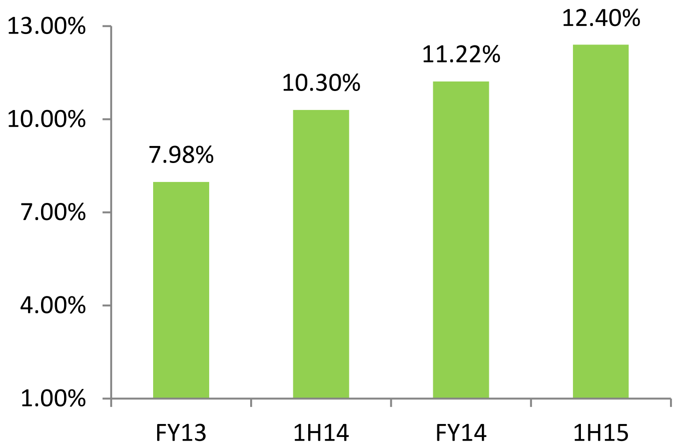
Average net debt - $m

- Reduction in average net debt reflect management focus
- Further improvement expected to continue into FY16
- Interest cover reflects investor grade metrics

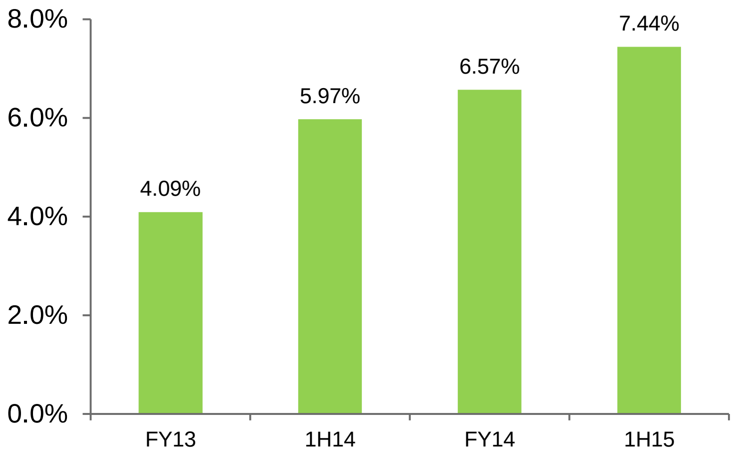
A$m	1H15	FY14	1H14
Net Debt*/(Net Debt + Equity)	13%	17%	19%
Net Debt*/Underlying EBIT	1.1x	1.5x	1.8x
Underlying EBIT/Interest	4.6x	3.6x	3.5x

* Net debt includes annual insurance premium funding and finance lease liabilities

Capital metrics improvement



Underlying ROFE* %



Underlying ROE* %

- **Business performance enabling strong financial management to drive the returns of the business**
- **Operational performance aimed to deliver ongoing increases in returns for shareholders**

* Refer Appendix 1 for definitions

Capital management update

Working Capital

- Ongoing focus has seen reduction of $25m over last 2 years
- Expected improvement FY16 with oneERP implementation

Capex

- Full year capex expected to be c$35m following oneERP conclusion
- Estimate FY16 capex at $15m

Debt

- Reduction of $47m in debt over the last 2 years
- Continued focus on debt reduction

Dividends

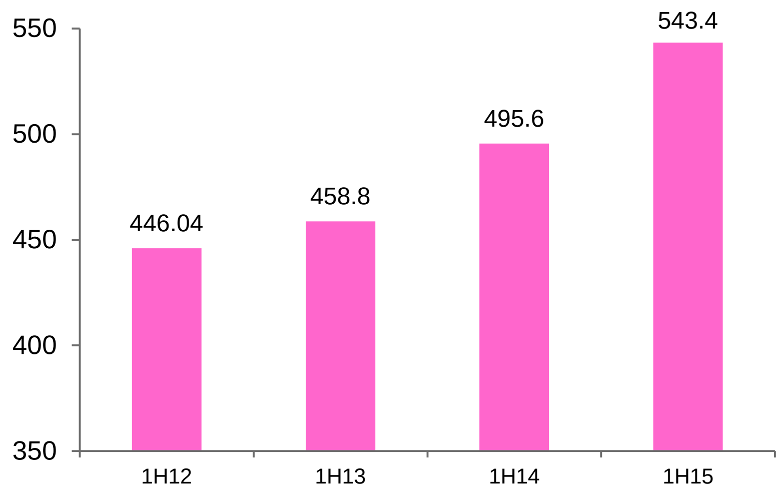
- Interim dividend 2.0 cents per share fully franked (pcp 1.5 cents)
- Sufficient franking credits to maintain fully franked dividend into foreseeable future

OPERATIONAL SUMMARY

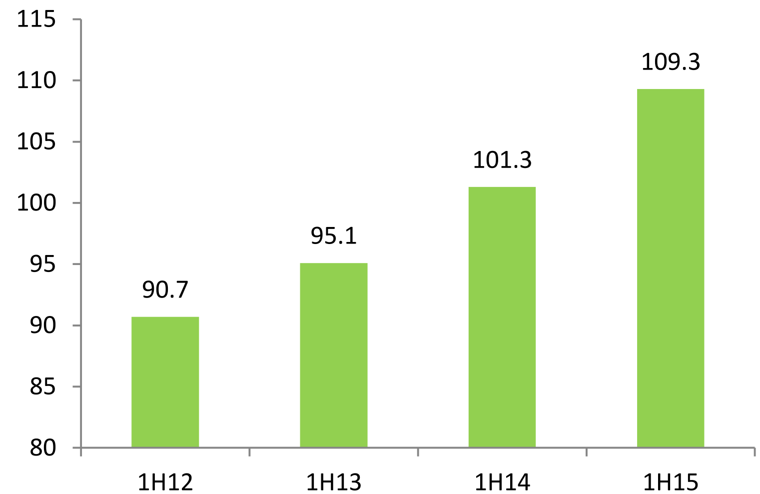
STEPHEN ROCHE

CEO & MANAGING DIRECTOR

Retail summary



Retail register sales* - $m



Gross profit - $m

Key indicators

- **Total retail network sales up 9.5%***
- **Register margin maintained vs 1H14**
- **Comparable store retail sales +3.9%***
- **Dispensary LFL volumes +4.0%**
- **Gross profit +7.9%**
- **Forecast c420 stores at the end of FY15**

*Store sales at register but excludes dispensary sales

Integrated assets amplify difference

All assets work together to create high level of "Pink noise" at targeted customers

400 stores
+10 stores

+$1.2m in fundraising
for 6 charity partners

+670 multimedia
screens in stores

Facebook +176,000
Instagram +90,000
Engagement levels up to 44% more than competition

5.2m members

Sponsor Australia's biggest health & beauty media events and with biggest publishing houses

Ambassadors that represent all facets of the brand

Increasing presence across all media through more TV, magazines & digital assets

Online sales up 75% on pcp
Average page views 9.1m

Added dedicated health catalogues
+9m catalogues/month
Reaches 75% of all households

api

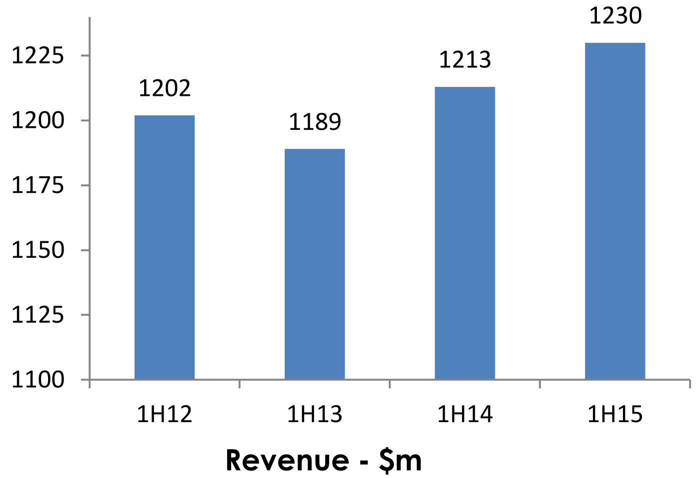
Growing core business strengths

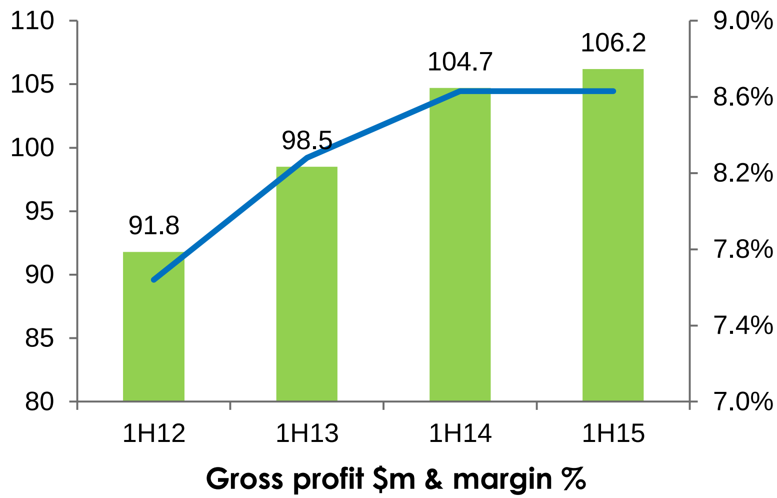
Leveraging Health & Beauty advantage	
Category	**Growth#**
Colour cosmetics	+10.9%
Skincare	+17.9%
Fragrance	+7.1%
Personal care	+4.9%
Medicinal health	+17.9%
Vitamins	+7.0%

Compelling model for business partners	
Franchise store LFL growth	3.9%
Store network size	400
Brand awareness	+95%
Website visitation	+23.1%
Online sales	+75%
Dispensary program customers	+90,000

Nielsen data to 8 February 2015 – MAT market share pharmacy & grocery

Pharmacy Distribution summary





Key indicators

- **Underlying Pharmacy Distribution revenue growth* of 9.5%**
- **GP margin sustained**
- **Independent offer growing customer base**
- **Growth achieved despite competitor brand acquisitions**

*Refer Appendix 1 for definition

Pharmacy Distribution summary

Integrated business driving value

- "Channel choice" program for pharmacy owners from full brand to selected services remains strong
- +700 Club Premium members of independent program and growth continues
- Sales achieved despite aggressive market share activity
- Key pharmaceutical supplier relationships benefitting growth in accounts

Key industry issues in 2015

- Sixth Community Pharmacy Agreement mid-2015
    - Engaged in current discussions
    - No material development
- Currently expect agreement to be signed by end June-2015

New Zealand segment summary

A$m	1H15	1H14	%
Sales	20.9	18.2	+14.7%
Gross Profit	11.7	9.5	+23.4%
GP Margin	56.0%	52.2%	-

Key indicators

- **Strong recovery after FY14 restructure with revenue and gross profit improvements**
- **Leveraging product development and range successfully into the Australian market**
- **Ongoing sales momentum from core products and agencies in NZ**

api

One Enterprise implementation status

Go Live phase now executed:

- **Global solution now operational**
- **Team integration and training ongoing**
- **No major business issues identified, contingency programs are in place**
- **Total cost of $45m and will deliver at least $7m of annualised savings from FY16**
- **Depreciation charges expected to reflect a 7 year effective life**

oneERP
Clarify Simplify Unify

api

SUMMARY AND OUTLOOK

STEPHEN ROCHE
CEO & MANAGING DIRECTOR

In summary

Strategic focus delivering results

- **Successfully leveraged health and beauty strengths into growing Priceline Pharmacy brand**
- **Remain a dominant pharmacy service provider**

Major investment phase completed

- **Investments over last 5-7 years set foundation for further improvement in organic growth**
- **Improvement in ROFE expected to continue**

Confidence with current performance for FY15

- **Business momentum is expected to continue for the remainder of the financial year**

* Outlook is subject to:

- no material change in consumer or customer demand
- a stable economic climate
- no unforeseen adjustments to the regulatory environment or reforms to the Pharmaceutical Benefits Scheme

AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

THANK YOU

Appendix 1

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 Half Year presentation for the period ending 28 February 2015.

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:

Non-IFRS measures used in describing the Business Performance include:

- Earnings before interest tax (EBIT)
- Earnings before interest, tax, depreciation, amortisation (EBITDA)
- Free cash
- Comparative Store Growth
- Interest cover
- Underlying EBIT
- Return on funds employed (RoFE)
- Return on Equity
- Underlying Pharmacy Growth
- Retail register sales

In addition to the above the following non-IFRS measures are used by management and the directors to assess the underlying performance of the Group following impairment charges recorded during the year.

- Underlying NPAT
- Underlying EBIT
- Underlying EBITDA

The directors consider that these performance measures are appropriate for their purposes and present meaningful information on the underlying drivers of the continuing business after considering the impact of the impairment charges.

Many of the measures used are common practice in the industry within which Australian Pharmaceutical Industries Limited operates. The Profit Announcement and Full Year presentation has not been audited or reviewed in accordance with Australian Auditing Standards.

Appendix 1 - Definitions

- EBITDA - Result from operating activities before Depreciation and Amortisation
- EBIT – Result from operating activities (includes late fee income from overdue trade debt)
- Free Cash – Cash generated from operations minus capital expenditure. It does not include financing costs and tax paid
- Comparative Store Growth - Sales performance compared to last period on stores trading in the network greater than one year
- Interest Cover – Result from operating activities divided by net financing costs
- Net Debt – Borrowings less cash on hand
- Return on funds employed – underlying EBIT / Equity plus Net Debt
- Return on equity – underlying NPAT/Equity
- Underlying Pharmacy Revenue Growth – Revenue computated on volumes before PBS price changes
- Retail register sales – Sales recorded at the register of all franchise and company owned stores which exclude dispensary sales. Register sales made by franchisees do not form part of the result of the consolidated entity

- Underlying EBIT – EBIT calculated as above without including one-off impairment or other one-off charges and associates contributions that have been detailed in prior financial periods. Refer page 26 for prior comparable period
- Underlying EBITDA – Underlying EBIT less depreciation and amortisation
- Underlying NPAT – NPAT calculated with the same exceptions as underlying EBIT. Refer page 27 for prior comparable period.

Appendix 2 – 1H15 Income Statement

$M AUD	HY15	HY14	Change
Revenue	1,712	1,659	3.2%
Gross profit	227.2	215.5	5.4%
Other Income	2.7	3.3	(18.2)%
Operating Costs	182.2	176.6	(3.2)%
Depreciation	9.1	9.1	-
EBIT pre impairment	38.6	33.0	17.0%
Financing costs	7.0	9.6	27.1%
Tax Expense	10.1	7.2	(40.3)%
NPAT pre impairment	21.4	16.2	32.1%
Impairment after tax	-	131.1	-
Associates	0.1	0.4	-
NPAT	21.3	(114.9)	-

api