22 October 2015

FULL YEAR RESULTS ANNOUNCEMENT

CORE ASSETS CONTINUE TO DRIVE PROFIT GROWTH

- **Net profit after tax (NPAT) of $43.1m; up 37.6% on underlying[1] NPAT for the prior corresponding period (pcp)**
- **Cash conversion cycle improved by 12% on pcp**
- **Return on capital employed (ROCE) up to 13.5%**
- **Priceline Pharmacy network growth to 420 stores and again experienced strong like-for-like sales growth of 4.5%**
- **Pharmacy distribution continued steady performance**
- **Fully franked final dividend of 2.5 cents per share; total full year dividends 28.6% up on pcp**

Australian Pharmaceutical Industries Ltd (API) today reported NPAT of $43.1m for the year ended 31 August 2015, and is up 37.6% on the underlying[1] NPAT for the pcp. Earnings before interest and tax (EBIT) of $74m is an increase of 13.7% on the underlying[1] EBIT for the prior year. The strong profit increase is again due to growth in earnings from API's core businesses and continued financial discipline.

"The sustained earnings' growth is coming from strong operational execution and financial management in line with our strategic plans. We continue to expand the Priceline Pharmacy network which means our growth strategy remains on track," API's CEO and Managing Director, Mr Stephen Roche, said.

"Our focus on the customer and financial management over many years is delivering consistent growth in our capital returns for shareholders. The improved cash generation, working capital management and lower debt has provided API with flexibility for future growth options," Mr Roche said.

Cash generated from operations increased by $15.9m on the prior year, average net debt was reduced by $39.3m, with net financing costs reduced by 21.8% from $18.1m to $14.1m.

During the period the company successfully implemented its oneERP program which is the first SAP integration of wholesale and retail systems in the world. The final capital expenditure on the program was $45m as expected, with annualised benefits of approximately $7 million to accrue from FY16.

[1] This statement should be read in conjunction with Appendix 1 & 2 in the full year results presentation lodged with the ASX. Underlying results are non-IFRS measures that API believes are relevant and appropriate to understanding its business and financial performance following the impairment charge and associates contribution in the prior financial period.

“Overall, the substantial investments we have made in supply chain, systems and the Priceline Pharmacy brand place us in a very competitive position and will continue to drive additional value for shareholders,” Mr Roche said.

“API is delivering on our strategy of transforming from a pharmacy wholesale business into a leading retailer with the synergy of a reliable, cash-generating pharmacy distribution business.”

Priceline Pharmacy

Priceline and Priceline Pharmacy recorded retail register sales of $1.05 billion[2], up 10.4% on the prior year. Like-for-like stores achieved sales growth of 4.5%[2] while still maintaining register GP margins. This result follows a like-for-like sales growth of 6.0%[2] in FY14, making the brand one of Australia’s strongest retail performers over the last two years.

During the year the Priceline and Priceline Pharmacy network grew by 30 stores to 420 stores with continued strong interest from pharmacists to join the network.

“Our health and beauty offering is famous with Australian women and our focus is to ensure that in every interaction we deliver on their expectations. We are continually evolving our range to bring the newest and the best in health and beauty while we are investing significantly in our specialist advice teams, whether with the pharmacists or the beauty advisors,” Mr Roche said.

“We have unparalleled reach to our target customers due to the strength of our assets, with 420 stores complemented by an online presence that sees 10 million page views per month, rapidly expanding social media engagement, 9 million catalogues distributed each month and substantial presence in health and beauty sponsorships.

“However our key customer asset, the Sister Club loyalty program, continues to grow and prove its value for members and for us. It has grown by almost 1 million members in the last 12 months to 5.6 million and we can deliver highly relevant, targeted offers which is why the members account for approximately 40% of our sales.”

Pharmacy distribution

API’s pharmacy distribution business maintained its performance against the continuing price deflation from PBS reforms and competitor activity. Year-on-year revenue was marginally down however underlying revenue growth, excluding the impact of PBS reform, was 6.5% up on the prior year. Gross profit was consistent with last year and margins maintained.

“The business performed well in retaining many of the accounts with the two customer groups acquired by competitors at the beginning of the year, and in also capturing new independent pharmacy accounts to largely offset any losses,” Mr Roche said.

[2] Excludes dispensary sales

"As a consequence of new accounts the Club Premium program continued to grow, now with 750 members. The overall performance was complemented by the confidence pharmacy owners have as a result of the remuneration certainty provided in the 6th Community Pharmacy Agreement."

New Zealand

The New Zealand business continued to improve with sales up 17.5% on the previous year. The business recorded EBIT of $2.8 m up from $0.97m in the prior year.

"The restructuring of the New Zealand business in the prior year has generated stronger returns . It has successfully expanded its range of exclusive products and private label offerings to our API-aligned pharmacists," Mr Roche said.

Dividend

Continued strong overall performance has led the API board to declare a fully franked final dividend of 2.5 cents per share, an increase from 2 cents, or 25%, on the prior year. This will bring full year dividends to 4.5 cents per share fully franked, up 28.6% on the last financial year. The record date for the dividend is Friday 6 November with payments to be made on Friday 4 December.

Outlook

API expects to see continued improvements in earnings through the benefits of its operational investments and an expanding Priceline Pharmacy network.

"We anticipate environmental conditions to remain challenging across the retail and pharmacy sectors, however we are well positioned to continue our growth. We expect to further expand our Priceline Pharmacy network in 2016 by at least another 20 stores, see further organic sales growth, extract benefits from oneERP and generate consistent earnings from the pharmacy distribution business," Mr Roche said.

The outlook is subject to no material change in consumer or customer demand, a stable economic climate and no unforeseen adjustments to either the regulatory environment or the PBS.

Ends

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