



AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

2015 FULL YEAR RESULTS PRESENTATION

THURSDAY 22 OCTOBER 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 things 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

- NPAT \$43.1m; reflecting further execution of strategy
- Underlying* NPAT up 37.6% on pcp
- Revenue up 3.3%, underlying* EBIT up 13.7%
- Average net debt down to \$145.5m & cash conversion up 12%
- ROCE improvement to 13.45% and ROE to 8.62%
- Final dividend payments in 2H15 2.5 cents/share; total full year dividends up 28.6% on pcp
- Completion of one ERP program – SAP installation

Organic growth from core assets

- Core assets delivering sustainable growth that is set to continue
- Priceline/Priceline Pharmacy a leading Australian retailer
- Pharmacy Distribution maintaining earnings in competitive market

Strategic priorities from key assets



GROUP FINANCIALS

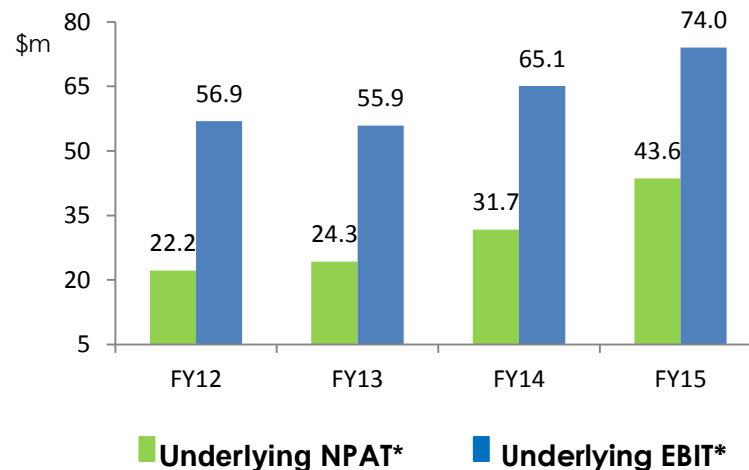
PETER MENDO
CHIEF FINANCIAL OFFICER



Full year financial highlights

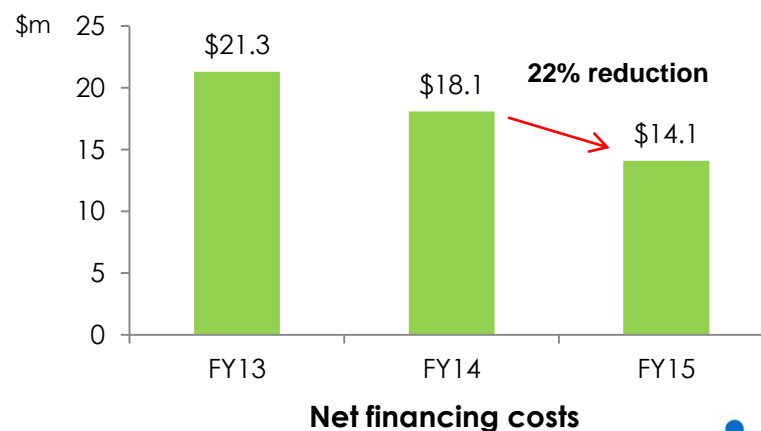
Operational performance driving sustained growth

- Core business delivering underlying EBIT and NPAT growth
 - EBIT CAGR – 9%
 - NPAT CAGR – 25%
- Momentum sustained



Debt position improved

- Further reduction in debt and associated financing costs
- Capital management remains a priority



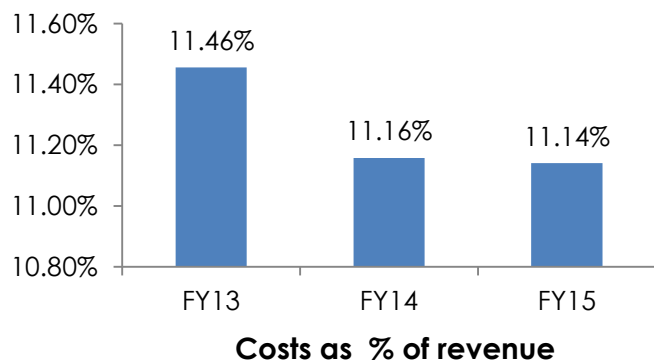
Operational management

Cost management

- Overall cost management improved on FY14
- Warehousing and distribution costs continue to improve year on year
- Brand and sales building activities for Priceline Pharmacy in competitive environment
- Expect ongoing costs to be maintained at current percentage of revenue despite PBS price deflation

OneERP implementation

- Implementation finalised in April 2015
- Stabilisation phase to embed SAP processes prior to extracting benefits
- Total cost of \$45m and will deliver approximately \$7m of annualised savings from FY16
- Depreciation charges expected to reflect a 7 year effective life



Working capital

A\$m	FY15	FY14
Trade Receivables	567	534
Inventories	364	342
Trade Payables	609	566
Net Working Capital	322	310
Trade debtors days	39.3	43.7
Inventories days	42.5	43.6
Trade payables days	49.5	50.6
Cash Conversion Cycle	32.3	36.7

- Cash conversion cycle reflects continued improvement in debtors and inventory days

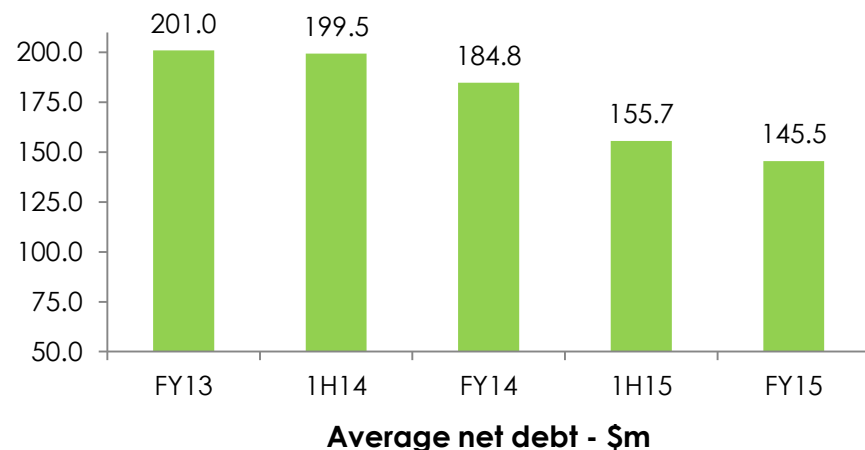
Cashflow

A\$m	FY15	FY14
Cash generated from Operations	101.8	89.9
Net Capital Expenditure	(29.9)	(26.7)
Free cash	71.9	63.2
Debt Reduction	(26.2)	(20.8)
Dividend	(19.5)	(15.9)
Net movement in cash*	26.2	26.5

- Strong cash generation from operating activities
- Capex reflects oneERP investment
- Debt reduction will continue through FY16

* Before finance costs and tax paid

Debt metrics improvement

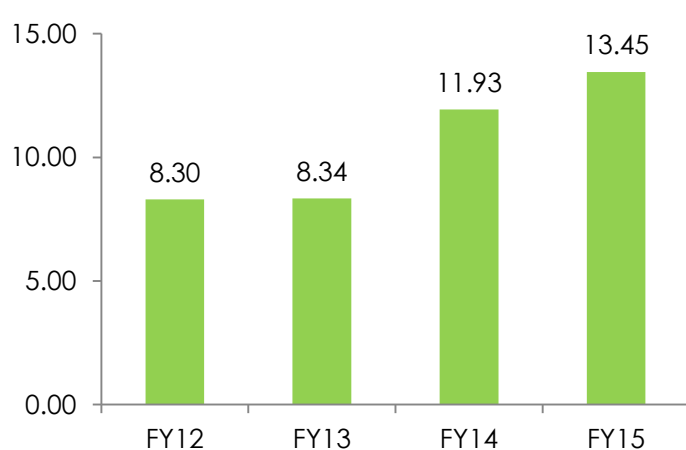


- Reduction in average net debt reflects management focus
- Further improvement expected to continue into FY16
- Debt and interest ratios further improved

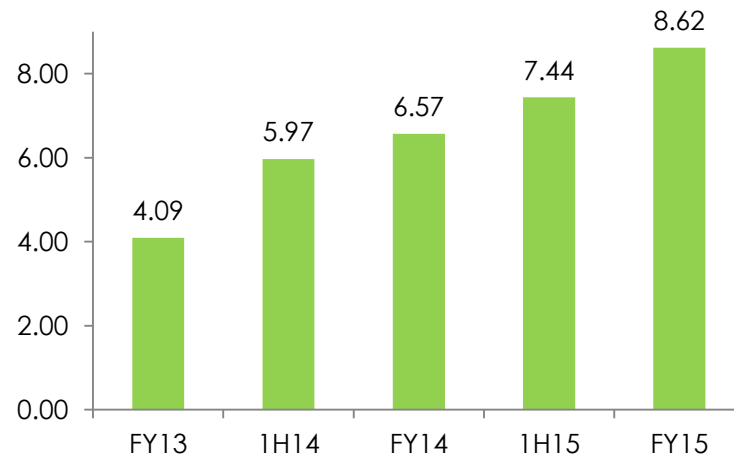
A\$m	FY15	FY14
Net Debt*/(Net Debt + Equity)	12%	17%
Net Debt*/Underlying EBIT	1.0x	1.5x
Interest cover	5.2x	3.6x

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

Capital metrics improvement



Underlying ROCE* %



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

- Additional stock in place for oneERP implementation
- Improvement through FY16 with SAP

Capex

- Full year capex finished at \$30.6m
- Following completion of OneERP FY16 capex projected to be c\$19m

Debt

- Reduction of average net debt by \$39.3m
- Debt reduction will accelerate with resumption of normal capex profile

Dividends

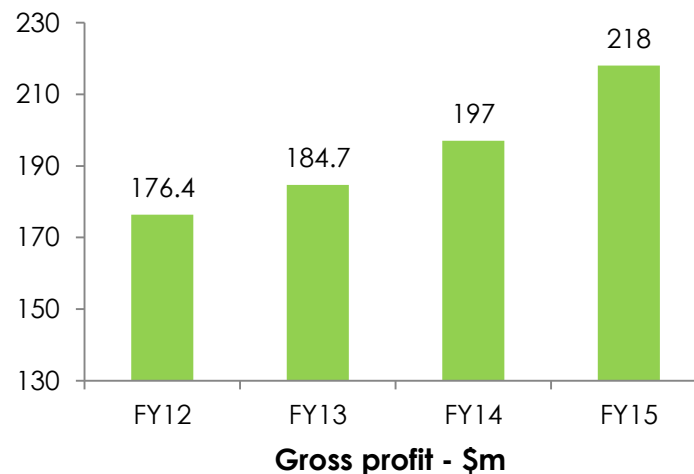
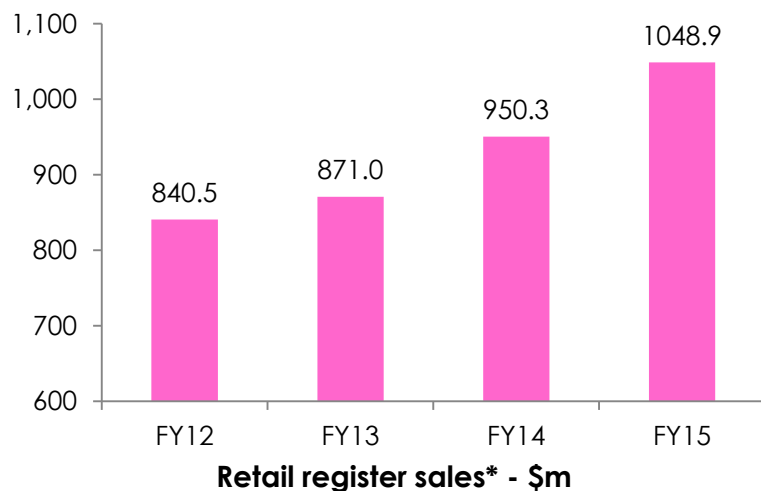
- Final dividend 2.5 cents per share fully franked (pcp 2.0 cents)
- Full year dividend at 4.5 cents per share, up 28.6% on pcp

OPERATIONAL SUMMARY

STEPHEN ROCHE

CEO & MANAGING DIRECTOR

Retail summary



Key indicators

- Total retail network sales up 10.4%*
- Register margin maintained vs FY14
- Comparable store retail sales +4.5%*
- Comparable dispensary volumes +4.5%
- Gross profit +10.7%
- 420 stores at August '15

*Retail network sales at register but excludes dispensary sales. Retail sales made by franchise stores do not form part of the financial results of the consolidated entity. Refer to the 2015 Appendix 4E lodged with the ASX for recorded segment revenue



api

Assets growing with consumers

Priceline Pharmacy Assets

Online

- Reach: Average monthly page views 10m
- Visits: 1.5m per month
- Targeted Ready to Buy audience
- E-commerce Store
- New look website launched 2015

In store

- 420 stores nationally
- Strong reach Australia wide
- A woman's playground
- Offers and promotions
- Strong POS linkage
- Local Area Marketing
- Dedicated Beauty Advisors and Pharmacists services

Multimedia Screens

- Total number of screens: 715
- Instant App: Monthly average of connections over 12,000

Activations

- Major National events
- Shopping centre events
- In store events

Catalogues

- All the famous brands
- Over 9m catalogues per month reaching 75% of Australian households
- eCommerce integration and specialised packages/offers
- Strong value
- Event theming

Sister Club

- Total members: 5.6m
- Email addresses: 1.6m
- Mobile phone numbers: 1.7m
- Represent 42% total sales and spend 43% more than non-members

Sisterhood Foundation

- Priceline's cause related marketing for women
- Sisterhood supports five charities

Social Media

- Facebook: 197,000
- Instagram: 127,000
- Twitter: 18,200
- YouTube: 3,800
- Pinterest: 13,300
- Highly engaged audiences across five social channels
- Strong growth month on month
- "Superfan" brand advocates

Ambassadors

- Brand ambassadors
- Aligning with key talent to drive our brand message
- Experts in the industry

Media – Television

- Dedicated National TV campaign
- Integration with catalogue offers
- Airing throughout the campaign period



Extending retail and franchise strengths

Leveraging Health & Beauty advantage

Category	Growth#
Colour cosmetics	+12.6%
Skincare	+21.9%
Personal care	+3.4%
Medicinal health	+23.6%
Vitamins	+17.8%

Compelling model for business partners

Franchise store LFL growth	4.5%
Store network size	420
Brand awareness	95%
Website visitation	+23.1%
Transaction numbers	+7.7%
Dispensary program members	+115,000

Beauty Advisors in every store

Our trained Beauty Advisors in every store would love to help you further understand your unique beauty needs with a personalised consultation.

Make the most of this in store service which includes:

- Advice on the latest beauty trends
- Foundation colour matching
- Expert skincare consultations
- New make-up techniques
- Personal product recommendations
- Correct brow colouring

Book in store or online for your

free women's health checks

BOOK NOW!
Limited spots available

- Lifestyle discussions
- Cholesterol test
- Breast check instruction
- Blood pressure reading
- Anaemia screening
- Weight evaluation

priceline pharmacy



The Priceline Sisterhood Foundation raises money for five charities that support women and their families. First established in 2011, the program has now raised more than \$2 million for its charity partners, with more than \$750,000 raised in 2015.

Priceline Sisterhood Foundation event

Launched a catalogue on 24 September dedicated to the Foundation.

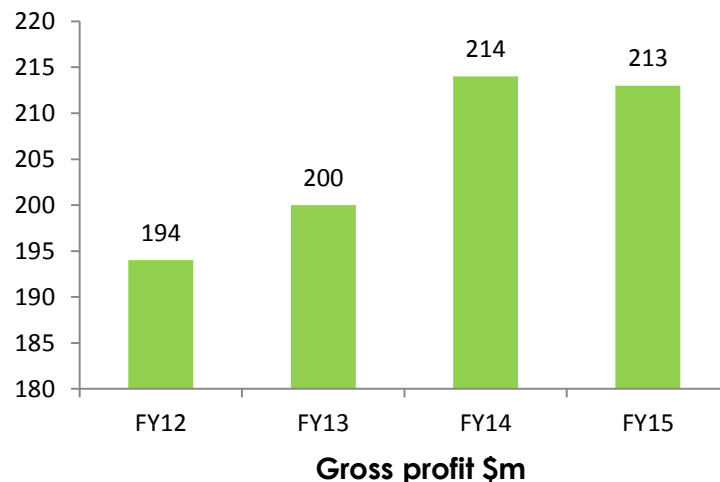
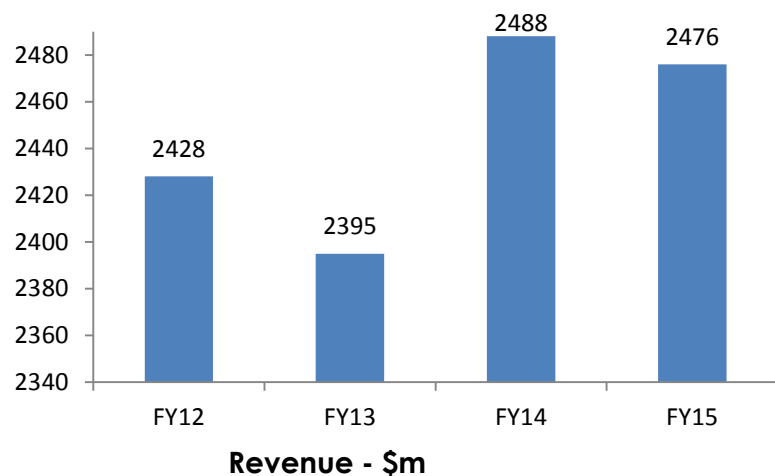
All stores held local events to raise money

Customers connected with the program via:

- In store giving
- Product purchases
- Online donations
- Facebook – 12,000 likes
- Instagram – #share4sisterhood



Pharmacy Distribution summary



Key indicators

- Revenue growth of 6.5% excluding PBS reforms
- GP margin held constant at 8.6%
- Price deflation and competitor banner acquisitions impacted revenue
- Independent offer winning new pharmacy accounts

Pharmacy Distribution summary

Integrated business driving value

- “Channel choice” program is ongoing and main pillar of services to pharmacies
- Sales growth is coming from independent (non-banner) pharmacies
- New accounts offset banner acquisitions by competitors
- 750 Club Premium members of independent program and growth continues

Industry issues

- Sixth Community Pharmacy Agreement
 - Certainty provided for owners
 - Independent review planned
 - Flexibility in agreement for wholesalers



New Zealand summary

A\$m	FY15	FY14	%
Sales	42.4	36.1	+17.5%
Gross Profit	22.7	20.1	+12.9%

Key indicators

- Positive 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



SUMMARY AND OUTLOOK

STEPHEN ROCHE

CEO & MANAGING DIRECTOR

In summary

Strategic plan has delivered

- **Integrated business delivering through focus on customers and also generating sustainable growth and capital returns for shareholders**

Maximise investment and future options

- **Well placed for FY16 despite mixed consumer confidence**
- **Management focus to maintain growth on back of strong foundation in Priceline Pharmacy**
- **Further options for growth will be considered during FY16**

* 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





Donate now via SMS or online and support 5 wonderful charities:

SMS: Text "SISTERHOOD" to 0497 222 444

Online: www.priceline.com.au/sisterhood



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 31 August 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 capital employed (ROCE)
- 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 during the 2015 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.

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 less capital expenditure. It does not include financing costs and tax paid
- Comparative Store Growth - Sales performance compared to last period for stores trading in the retail 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 capital employed (ROCE) – underlying EBIT / Equity plus Net Debt - Tax
- Return on equity (ROE) – underlying NPAT/Equity
- Underlying Pharmacy Revenue Growth – Revenue computed 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
- Retail network – franchise and company stores in the Priceline/Priceline Pharmacy brand
- 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 29 for prior comparable period.

Appendix 2: Full Year 2015 Income Statement

\$M AUD	FY15	FY14	Change
Revenue	3,457	3,346	3.3%
Gross profit	453.8	431.8	5.1%
Other Income	5.4	6.6	(18.2)%
Operating Costs	364.8	355.1	2.7%
Depreciation	20.4	18.2	12.1%
EBIT pre impairment	74.0	65.1	13.7%
Net financing costs	14.1	18.1	(22.1)%
Tax Expense	16.3	15.3	6.5%
NPAT pre impairment	43.6*	31.7	37.6%
Impairment after tax	-	(121.4)m	-
Associates	(0.4)m	(1.1)m	-
NPAT	43.1*	(90.8)	-

* Rounding discrepancies account for the differential between "NPAT pre impairment" and "NPAT". Refer to the 2015 Appendix 4E lodged with the ASX for full accounts.

Appendix 3: Underlying earnings reconciliation

A\$m	2015	2014
Reported result from operating activities	74.0	(45.9)
Intangible impairment (NZ manufacturing & Retail)	-	59.0
Impairment pharmacy customer loan and non-current loan guarantees on balance sheet	-	52.0
Underlying EBIT	74.0	65.1
Reported net profit / (loss) after tax	43.1*	(90.8)
After tax effect of underlying adjustments	-	101.4
Impairment and share of loss from associates (CH2)	0.4	21.1
Underlying net profit after tax	43.6*	31.7

* Rounding discrepancies account for the differential between "Reported net profit/(loss) after tax" and "Underlying net profit after tax". Refer to the 2015 Appendix 4E lodged with the ASX for full accounts.



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