20 OCTOBER 2016

2016 FULL YEAR RESULTS ANNOUNCEMENT
API GROWTH CONTINUES – UNDERLYING NPAT UP 18%

- **Underlying net profit after tax (NPAT) of $51.4m; up 18.0% on underlying[1] NPAT for the prior corresponding period (pcp)**
- **Earnings before interest and tax (EBIT) of $87.1m up 17.7% on the pcp**
- **Underlying return on capital employed up 204 basis points to 15.49%; underlying return on equity up 96 basis points to 9.58%**
- **Earnings per share up 20.5% to 10.6 cents**
- **A final fully franked dividend of 3.5 cents per share; up 40% on the pcp, and directors have determined to move towards a 60% payout ratio in future**
- **Leadership succession plan implemented**

Australian Pharmaceutical Industries Limited (API) today reported underlying[1] NPAT of $51.4m for the twelve months ended 31 August 2016, up 18.0% on underlying NPAT for the prior corresponding period. Reported NPAT was $51.7m, which includes the previously announced $2.4m loss on the sale of API's shareholding in associate CH2 and a $2.7m net after tax benefit relating to prior year write downs[4].

Total revenue for the period increased 11.1% to $3.8 billion, reported EBITDA up 20.3% to $113.6m and reported EBIT up 17.7% to $87.1m. Reported net debt dropped by $44.9m from $70.8m at the end of FY15 to $25.9m as working capital returned to normal levels.

The API Board has declared a fully franked final dividend of 3.5 cents per share and due to the ongoing strength of the operational results and balance sheet position directors have determined to move towards a 60% payout ratio in the future.

"API's increased profits, low debt and the improved working capital position reinforces the strength of company direction, management capability to execute strategy and now provides flexibility for the company in its future development," API's CEO and Managing Director, Stephen Roche, said.

"API has built one of Australia's leading retail brands and maintained the pharmacy distribution business successfully through major industry reforms; during this time we have been able to improve API's underlying NPAT from $23.9m in FY13 to $51.4m this year, or an increase of 115%," Mr Roche said.

"The strategy has delivered improved returns for shareholders; our return on equity and return on capital employed continue to build and over the last three years we have increased dividends by 85% while ensuring a sustainable platform for the company," Mr Roche said.

In the past year underlying return on capital employed has increased 204 basis points to 15.49%. In the same period underlying return on equity has also grown and is now at 9.58%, up 96 basis points from FY15. In returning working capital to normal levels the cash conversion cycle has also improved to 23.9 days, compared to the same time last year when it was at 26.1 days.

Priceline Pharmacy growth

The Priceline Pharmacy network has reached a record 442 stores, up from 420 at the end of the last financial year. Overall retail sales[2] for the period were up 7.6% to $1.15 billion and comparable store sales[2] growth was 2.8%. Including dispensary sales, overall retail sales were circa $2 billion, 11.7% up on the prior year.

"The sales growth has been consistently driven by two factors; by attracting new franchise partners to the brand to expand the network and by increasing comparable store sales," Mr Roche said.

"We're continuing to take market share in the key categories of colour cosmetics, skincare, over-the-counter health and prescriptions which together are the heartland for our business. Our customers know they can get the widest range of health and beauty products with us and we're investing more in our store teams to make it the best customer experience possible.

"We've also invested in positioning for the future with the launch of our Next Generation store format during the year which updates the brand's 'look and feel' and headlines the elements of the brand that we are famous for with customers. We're confident that we're very well positioned for the future and in being able to respond to customer needs.

"We have an enviable suite of marketing assets that are driving brand awareness from the core advertising and catalogue programs through to our sponsorships of Adelaide Thunderbirds netball team and the Western Bulldogs women's AFL team."

Pharmacy Distribution maintains earnings in competitive market

Pharmacy Distribution revenues grew by 11.2% primarily from the effect of the new high-value Hepatitis C treatments. Normalised for the effect of PBS Reforms and Hepatitis C medicines underlying growth was 4.8%.

"Our market position has remained very steady and consistent during the past year which in a highly competitive market reflects a strong offer to pharmacists across a range of services," Mr Roche said.

"Our services through Soul Pattinson, Pharmacist Advice and our Club Premium program allow independent pharmacists to choose a program that is right for them.

Using these services we are continuing to grow relationships with key partners in their business expansion."

As part of the National Pharmaceutical Services Association (NPSA), API has been active in the current Review of Pharmacy Remuneration and Regulation. The NPSA has made a formal submission to the Review's discussion paper which will contribute to the final report in 2017.

The New Zealand operations have continued their constant improvement since 2013 and in the last year sales grew by 6.8% to $45 million and gross profit by 4.2% in the same period.

Dividend payment

The total fully franked dividends declared in respect of the 2016 financial year were 6.0 cents per share, up 33% from 4.5 cents in the prior year. The record date for the dividend is 4 November 2016 and the payment date is 9 December 2016.

Outlook[3]

API expects that it will open another 20 Priceline Pharmacy stores during the year and it will continue to generate operational improvements following the capital investments in prior years.

"The business has made long term investments that have underpinned the company for ongoing growth. This will enable management to continue growing the business, adapt to changes and ultimately deliver strong returns to shareholders in the foreseeable future," Mr. Roche said.

[1] This release should be read in conjunction with the Appendix 4E or the FY16 Results Presentation lodged with the ASX. Underlying results are non-IFRS measures that API believes are appropriate to understanding its business and financial performance following impairment charges and/or associates effects in the financial periods under review.

[2] This refers to retail sales recorded at the store point of sale and excludes dispensary sales. This is company store and franchise store sourced information and is not recorded in the Appendix 4E.

[3] 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.

[4] API has determined that taking a net $2.7m after tax benefit in relation to a write off of certain customer related debts written down in a prior reporting period is appropriate.

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