21 April 2016

2016 HALF YEAR RESULTS ANNOUNCEMENT
ORGANIC GROWTH DELIVERS 18.1%[1] PROFIT INCREASE

- **Underlying net profit after tax (NPAT) of $25.3m; up 18.1% on underlying[1] NPAT for the prior corresponding period (pcp)**
- **Earnings before interest and tax (EBIT) of $44.6m up 15.6% on EBIT for the pcp**
- **Return on equity further increased to 9.54%**
- **Priceline/Priceline Pharmacy network grew to 425 stores, with 7.1% retail sales[2] growth and 2.4% comparable store sales[2] growth**
- **Pharmacy Distribution performed to expectations with revenue growth of 1.5%**
- **Fully franked interim dividend of 2.5 cents per share, up 25% on pcp**

Australian Pharmaceutical Industries Limited (API) today reported underlying[1] NPAT of $25.3m for the six months to 29 February 2016, which was up 18.1% on underlying NPAT for the pcp. Reported NPAT, including the previously announced $2.4m loss on the sale of API's shareholding in CH2, was $22.9m and 7.7% up on the prior year. Total revenue for the six month period was up 4.4% to $1.79bn with EBIT up 15.6% to $44.6m.

"API has again delivered strong growth for shareholders through executing a clear strategy that is centred on building the Priceline Pharmacy network while generating sustainable returns through pharmaceutical distribution," API's CEO and Managing Director, Stephen Roche, said.

"We've made major infrastructure investments in our business over the last eight years to allow us to become a leading health and beauty retailer and this has resulted in rewards for shareholders," Mr Roche said.

"Our momentum is sustainable because we have the right strategy and systems in place for an intensely competitive and changing market."

In addition to revenue increases, management reduced the cost of doing business by 16 basis points in an environment that has typically seen costs rising. Return on equity and return on capital employed increased on the pcp to 9.54% and 12.51% respectively.

Net financing costs increased by $1.3 million compared to the same period last year. This was due to a change in funding requirements because the company elected to increase inventory in the lead up to the key seasonal trading period to protect sales following the implementation of its new SAP system. This decision ensured strong sales were maintained, however it saw a short term increase in average net debt and use of cash during the half. This is on track to return to normalised levels by the end of the current financial year.

Priceline Pharmacy network expansion continues

The Priceline Pharmacy network has reached a record 425 stores, up from 420 at the end of the last financial year. Overall retail sales[2] for the period were up 7.1% to $583.4m and comparable store sales[2] growth was up 2.4%. The brand's Sister Club loyalty program grew to 6.1 million members and is comprised of the most frequent and highest-spending customers for the brand.

"The brand remains strong on all fronts. Our total sales, consumer loyalty to the brand, the store network numbers and the new store pipeline are all increasing," Mr Roche said.

"Our sales growth record over recent years is due to our disciplined approach to delivering what the customer wants; a wide health and beauty product range that includes having the latest, most popular products all wrapped up with great service and value that Australian women can't get anywhere else," he said.

"We're driving awareness and people to our offer through leveraging all our communication assets with integrated campaigns which is keeping franchise partners differentiated in a competitive market.

"We're giving our customers every opportunity to interact with our brand on their terms and we can see it's paying off with our most valuable online customers also being the most valuable customers in our stores.

"Our engagement with customers is crucial to our ongoing success and we remain focussed on building the in-store experience further by providing our customers with a broader range of health and beauty specialty services."

Pharmacy Distribution maintains earnings in competitive market

The steady growth in Pharmacy Distribution continued with recorded revenue growth up 1.5% on the pcp to $1.23b and gross profit increased by 1.0%. Revenue growth excluding the PBS Reforms impact was 7% up on the pcp.

"Our extensive platform of services to pharmacy has sustained our sales growth through conditions that remain testing and highly competitive," Mr Roche said.

"Tailoring our services to pharmacists' needs has enabled us to generate sustainable returns from our business despite intense competition and on-going impacts of regulatory changes," he said.

"The suite of services available across Soul Pattinson, Pharmacist Advice and our Club Premium program underpins the ongoing success of our relationship with independent pharmacists."

API is participating in the current Review of Pharmacy Remuneration and Regulation through its membership of the National Pharmaceutical Services Association (NPSA). The NPSA has made submissions to, and will be active in ongoing dialogue with the Review which will report in March 2017.

The New Zealand operations improved sales by 12.1% largely on the back of increased penetration of the Australian market by its key private label brands.

Dividend

The API Board has declared a fully franked interim dividend of 2.5 cents per share, an increase from 2.0 cents, or 25%, on the pcp. The record date for the dividend is 6 May 2016 and the payment date is 3 June 2016.

Outlook[3]

API expects current trading performance will continue during the second half albeit with the seasonal retail sales trend favouring the first half as normal.

"Our track record of sales and profit growth from core assets has seen shareholder returns improve substantially in the last three years. We expect continue to generate sales growth and efficiencies from the current business that will further build on the positive returns to shareholders," Mr. Roche said.

[1] This release should be read in conjunction with the Appendix 4D or the 1H16 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 4D.

[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.

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