

AUSTRALIAN PHARMACEUTICAL INDUSTRIES

2017 HALF YEAR PRESENTATION

20TH APRIL 2017

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

RICHARD VINCENT

CEO & MANAGING DIRECTOR

GROUP RESULTS

API ESTABLISHED GROWTH PROFILE CONTINUES INTO FY17

\$29.1m

Underlying* NPAT

15.0%

\$48.6m

EBIT

9.0%

10.6%

Underlying* ROE

10.7%

6.0¢

Underlying* EPS

15.4%

3.5¢

Dividend

40%

\$2.015bn

Revenue

12.7%

*Refer to Appendix 1 for definitions (page 20)

GROUP HIGHLIGHTS

Financial

- Ongoing growth in dividends for shareholders
- On track to be cash positive by end of CY17
- Consistent growth in ROCE and ROE
- Balance sheet capacity provides options

Operational & Strategic

- Increased Priceline Pharmacy store network to 450
- Store network pipeline remains strong
- Overall market share in health and beauty improved
- Minimized impact of Hep C and PBS price deflation
- Offering to independent pharmacy continues to deliver
- Infrastructure and established marketing assets to minimize effect of slower economy

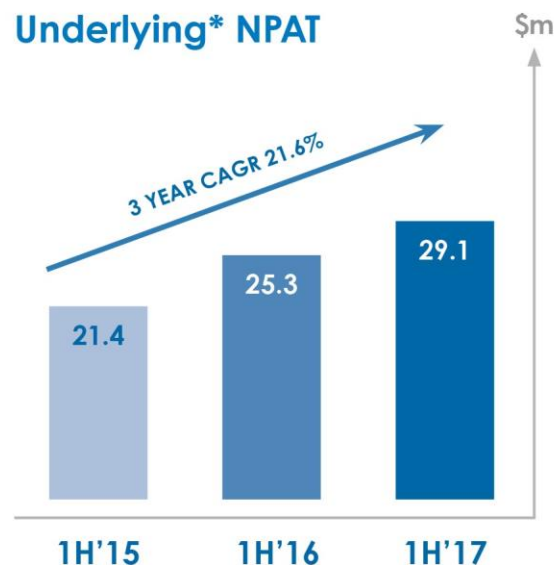
FINANCIAL RESULTS

PETER MENDO

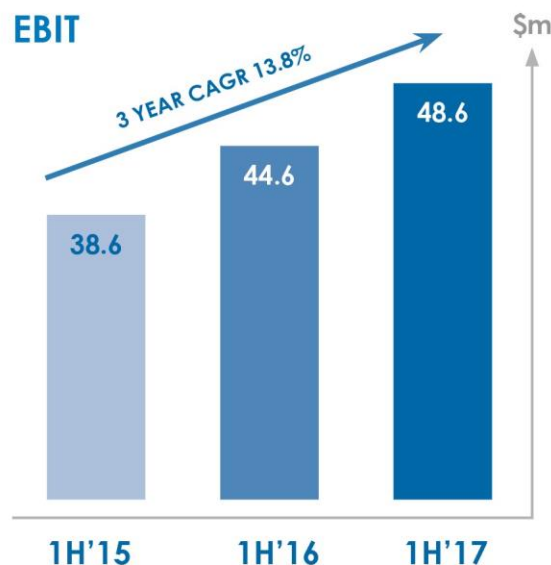
CHIEF FINANCIAL OFFICER

FINANCIAL OVERVIEW

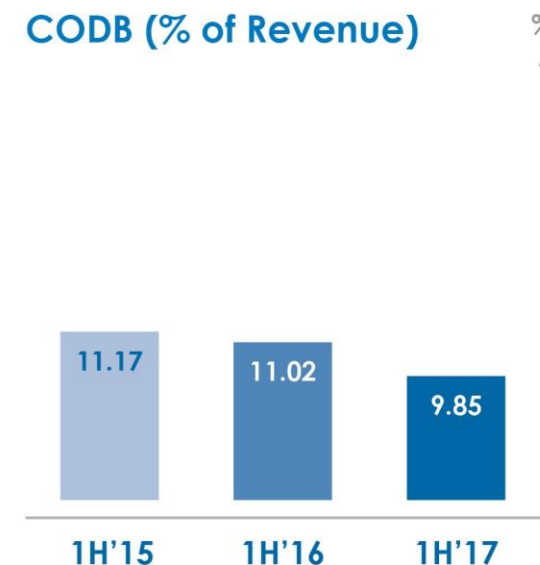
Underlying* NPAT



EBIT



CODB (% of Revenue)



Improved financial returns

- NPAT, ROE and ROCE all increased more than 10% on pcp
- 1H17 Dividend payment up 75% on 1H15 and up 40% on 1H16 (60% payout ratio)
- Earnings per share up 15.4% on pcp

*Refer to Appendix 1 for definitions (page 20)

Infrastructure payback

- Operating result deriving value from infrastructure investments
- CODB as a % revenue improvement of 117 basis points
- Further ability to leverage current investments

WORKING CAPITAL

		Reporting Period		
	\$m	1H'16	FY'16	1H'17
Net Working Capital	Trade Other Receivables \$m	533	689	631
	Inventory \$m	383	414	363
	Trade & Other Payables \$m	528	799	653
	Net \$m	388	304	340
Debtor Days		34.6	39.5	33.9
Inventory Days		40.9	41.0	33.7
Creditor Days		38.0	56.6	40.6
Cash Conversion Days		37.4	23.9	26.9

Working capital normalised for seasonal trading

- Seasonal increase in inventory for Xmas trading period
- 10.5 days improvement in cash conversion cycle on pcg
- Cash conversion cycle back to usual pre 1H16 levels
- Hep C volume decline impacted working capital

CASHFLOW & DEBT

		Reporting Period		
		1H'16	FY'16	1H'17
Cash \$m	\$m			
	Cash generated from trading activities	(45.8)	96.6	21.1
	Net capital expenditure	(7.8)	(13.0)	(12.4)
	Free cash	(53.6)	83.6	8.7
	Debt increase/(decrease)	61.9	(48.4)	42.4
	Dividend	(12.2)	(24.4)	(17.1)
	Net movement in cash	(3.9)	10.8	34.0
Net Debt	Reported Net Debt	141.8	25.9	57.4
	Net Debt [▲] /(Net Debt + Equity) %	21	4.6	9.5
	Net Debt [▲] /EBIT x	1.8	0.3	1.2
	EBIT/Interest x	5.4	5.5	7.6

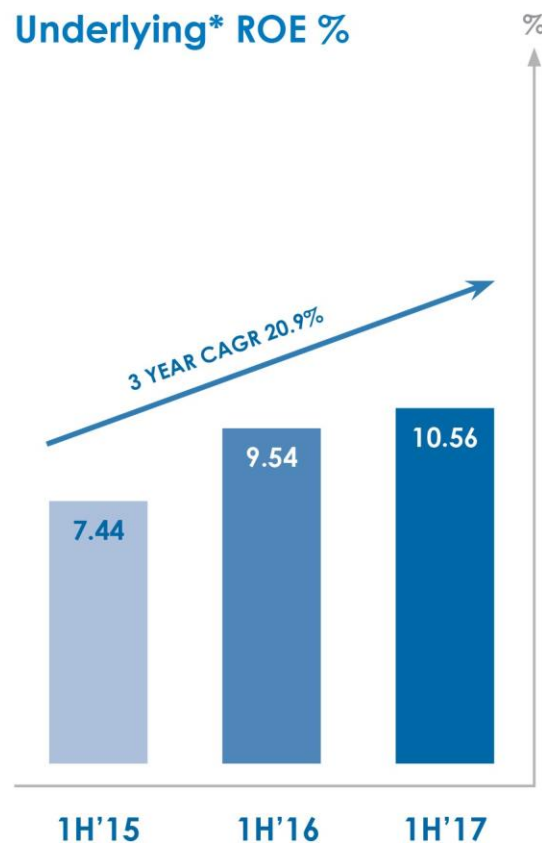
▲Net debt includes annual insurance premium funding and finance lease liabilities

Reported net debt improved on pcp

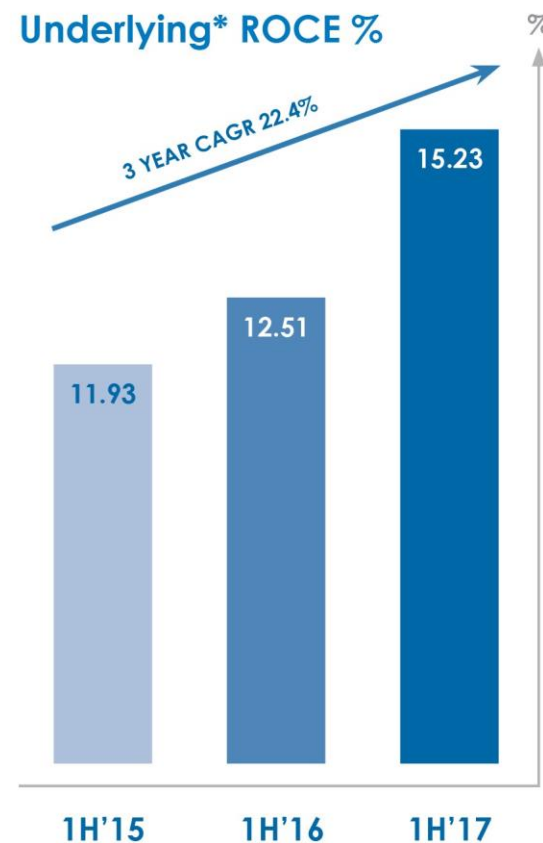
- Reported net debt \$84.4m lower than 1H16
- Seasonal variance reflected in results
- Cash positive by end of CY17
- Debt metrics continue to improve

CAPITAL METRICS & MANAGEMENT

Underlying* ROE %



Underlying* ROCE %



Key returns for shareholders improved on pcp

- Working capital to improve in line with traditional 2H movements
- Capex for FY17 unchanged and below depreciation
- Fully franked dividends continue to increase

*Refer to Appendix 1 for definitions (page 20)

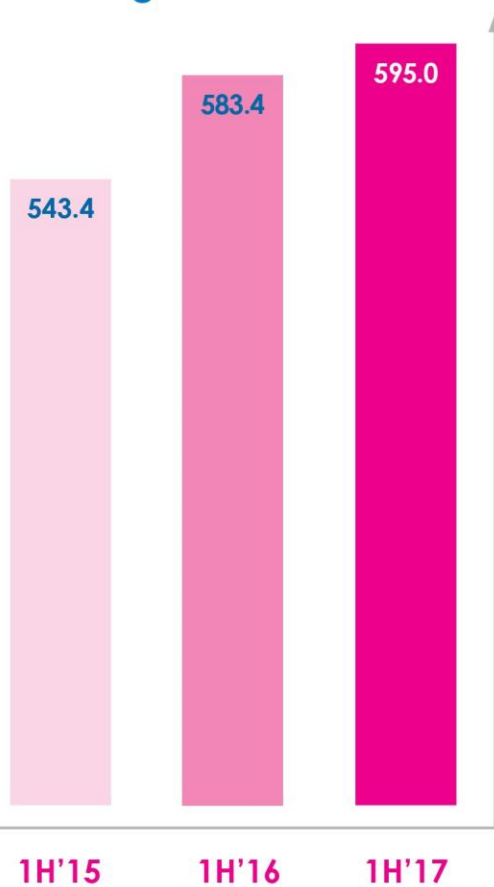
OPERATIONAL SUMMARY

RICHARD VINCENT

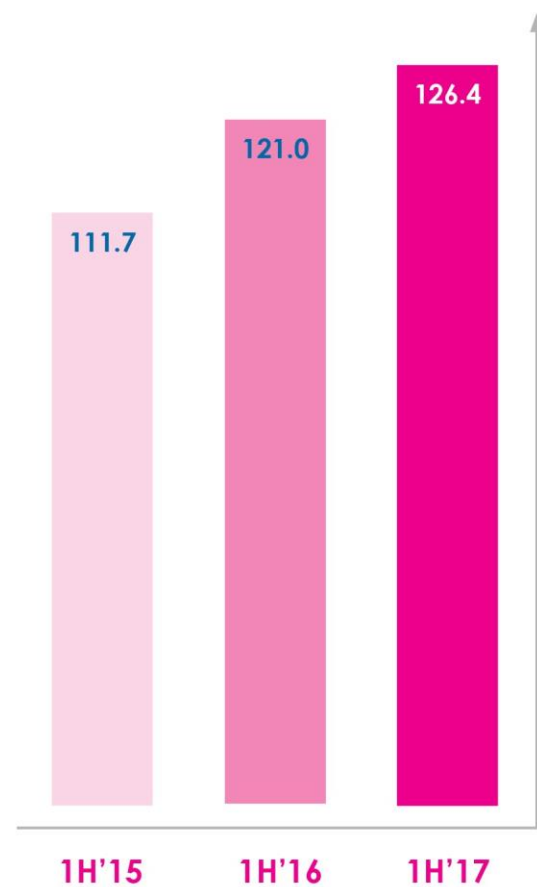
CEO & MANAGING DIRECTOR

RETAIL RESULTS

Retail Register revenue^ \$m



Retail GP \$m



Growth continues

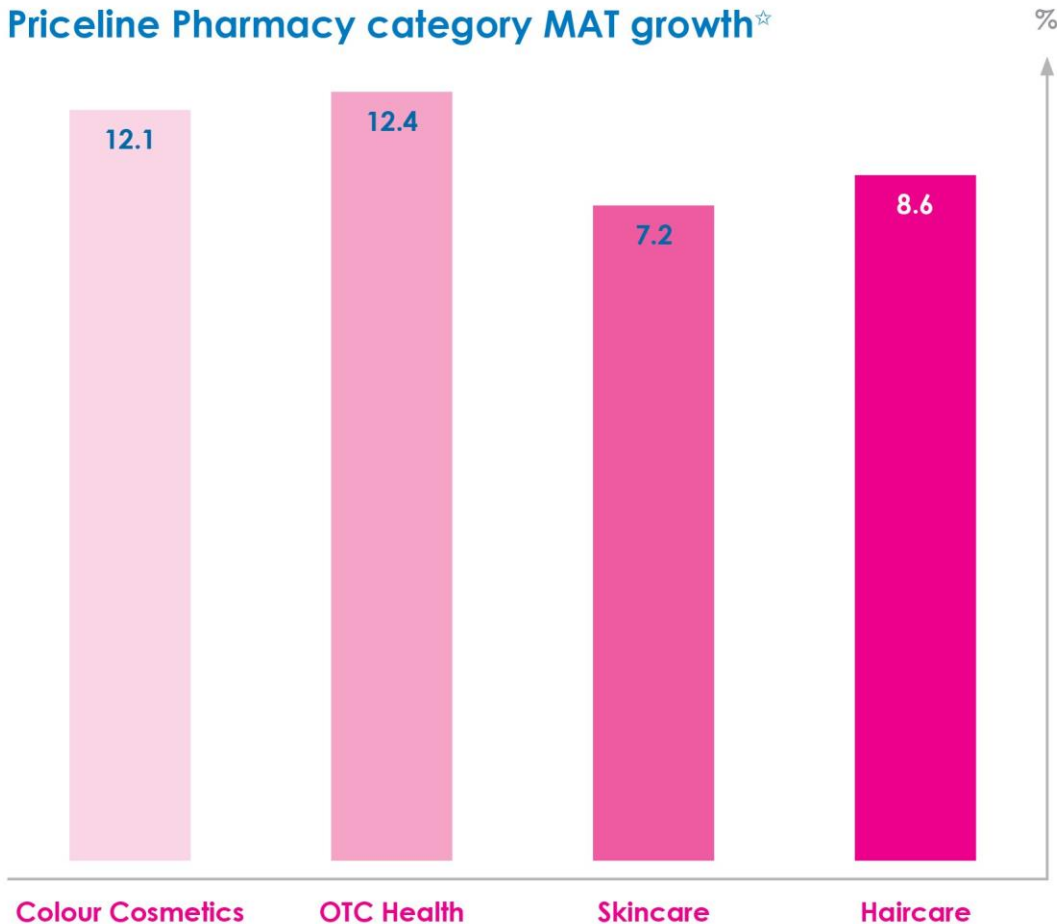
- Total network# sales up 7.2% or 5% excluding Hep C
- Retail^ network sales up 2%
- Comparable store sales up 0.4%
- Stronger LFL sales to Xmas 2016, slowness across retail sector post Xmas trading
- 450 stores at 28 February 2017

#All retail sales, including dispensary, recorded at register

^Retail network sales at register but excludes dispensary sales. Retail sales made by franchise stores do not form part of the financial results of API. Refer to the 2017 Appendix 4D for recorded segment revenue

RETAIL RESULTS

Priceline Pharmacy category MAT growth[☆]



Taking market share

- Increased MAT market share of total health and beauty market by 0.4%
- Footfall rate positive with shoppers being more selective - higher transaction growth than sales growth
- Overall retail market growth slowing in CY17

Franchise partner relationship

- Annual survey shows satisfaction maintained at previous high levels
- Connection to the brand very high
- Long term network growth prospects remain strong

[☆]Neilsen market data as of 5 March 2017 - MAT market share pharmacy and grocery

RETAIL RESULTS

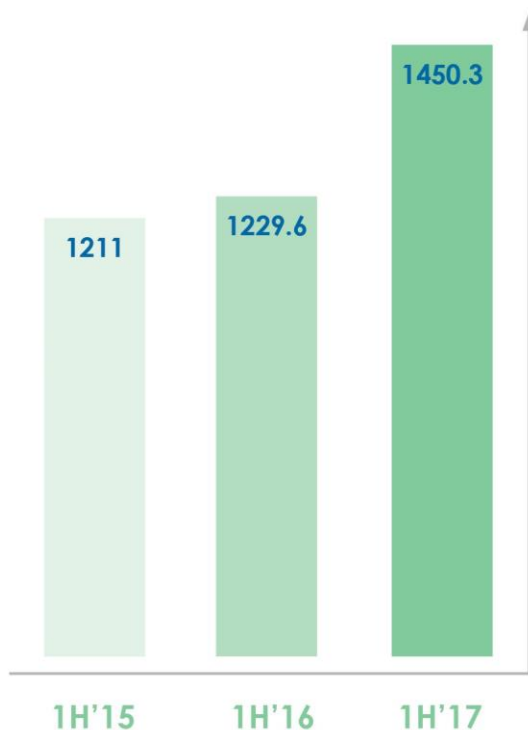


Increasing investment in key customer differentiators

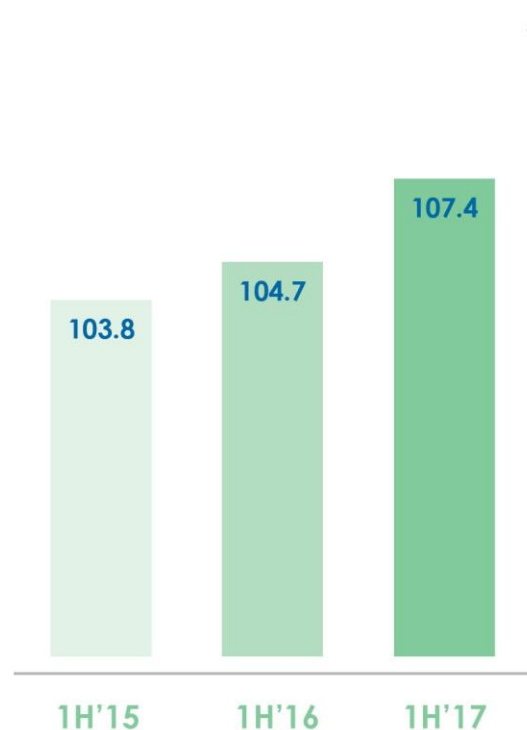
- Invested in new Sister Club platform
- Increased investment in retail career paths for key roles
- Launched new consumer campaign - 100% women
- Developed new suite of sponsorships
- Backed new launches and exclusive offers
- Next generation store elements in all new stores

PHARMACY DISTRIBUTION RESULTS

Distribution revenue \$m



Distribution GP \$m



Fundamentals well managed

- Revenue increase of 18.0%
- Underlying* revenue growth of 5.9% excluding Hep C and PBS reforms
- Hep C growth slowing compared to 2H16
- PBS reforms continue to be managed
- Independent pharmacy business remains steady
- Increasing focus on developing services models



Soul Pattinson Chemist

Pharmacist Advice



CLUB PREMIUM

*Refer to Appendix 1 for definitions (page 20)

PHARMACY DISTRIBUTION



Infrastructure development

- New Perth DC opening in June 2017
- Ability to service newly gained market share
- Reducing service times for Priceline Pharmacy network and improving customer experience
- Minimal capital investment - \$5m

Review into Pharmacy Remuneration and Regulation

- Active in providing feedback to the panel
- NPSA provided clear evidence for keeping CSO and indexation

NEW ZEALAND



Regulatory changes impact

- Earnings Results for 1H17 affected by demand in Australian market (e.g. Codeine products)
- Replacement business being secured and planned
- Return to usual performance expected in FY18

OUTLOOK

Core strategy is on plan and growth opportunities remain for API

- FY17 outlook facing consumer sentiment that is challenging however management and infrastructure investments provide flex to prevailing conditions
- Expect full year NPAT a minimum 10% up on FY16
- Longer term growth expected to continue

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 28th February 2017.

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
- Comparable Store Growth
- Interest cover
- Return on capital employed (ROCE)
- Return on Equity (ROE)
- 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 period:

- Underlying NPAT

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 Half 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
- **Free Cash**
Cash generated from operations less capital expenditure. It does not include financing costs and tax paid
- **Comparable 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)**
Rolling 12 month EBIT / Total capital employed
- **Return on equity (ROE)**
Rolling 12 month NPAT/Equity
- **Underlying Pharmacy Revenue Growth**
Revenue computed on volumes before PBS price changes that occur on 1 April and 1 October each year
- **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
- **Underlying NPAT**
NPAT calculated with the same exceptions as underlying EBIT. Refer to 1H'16 4D lodged with the ASX in April 2016 for the prior comparable period

THANK YOU

FOR MORE INFORMATION

www.api.net.au