

# APPENDIX 4D

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Interim financial report for the period ended 28 February 2021



The following information is presented in accordance with ASX listing rule 4.2A.3.

## 1. DETAILS OF THE REPORTING PERIOD AND THE PREVIOUS CORRESPONDING PERIOD

Current period	Half year ended 28 February 2021
Previous corresponding period	Half year ended 29 February 2020

## 2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	2021	2020	Change	Change
For the half year ended February	\$'000	\$'000	\$'000	%
<b>Revenue from ordinary activities</b>	<b>1,980,501</b>	2,033,067	(52,566)	(2.6%)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	<b>74,076</b>	82,753	(8,677)	(10.5%)
Earnings before interest and tax (EBIT)	<b>29,416</b>	39,304	(9,888)	(25.2%)
Profit before tax	<b>21,851</b>	29,050	(7,199)	(24.8%)
<b>Net profit after tax for the half year (NPAT)</b>	<b>15,920</b>	22,511	(6,591)	(29.3%)
<b>Underlying net profit after tax for the half year <sup>(i)</sup></b>	<b>17,711</b>	25,418	(7,707)	(30.3%)
<b>Earnings per share (in cents)</b>				
Basic earnings per share	<b>3.2</b>	4.4	(1.2)	(27.3%)
Diluted earnings per share	<b>3.2</b>	4.4	(1.2)	(27.3%)
Underlying basic earnings per share <sup>(i)</sup>	<b>3.6</b>	5.2	(1.6)	(30.8%)

These results should be read in conjunction with the interim financial report for the half year ended 28 February 2021.

(i) Refer to Attachment 1 for reconciliation of reported net profit after tax and basic earnings per share to underlying net profit after tax and underlying basic earnings per share.

## Commentary on the results for the period

For an explanation of the results, refer to the Results Announcement and Results Presentation issued 22 April 2021.

## 3. DIVIDEND INFORMATION

	Amount per share	Franking percentage	Total Amount A\$	Date of payment
<b>Half year ended 28 February 2021</b>				
Interim dividend	1.50	100%	7,389,841	4 June 2021
Record Date: 7 May 2021				
Final dividend (prior year) - paid	2.00	100%	9,853,120	15 December 2020

There is no dividend reinvestment plan in operation.

## 4. NET TANGIBLE ASSET BACKING (CENTS PER SHARE)

For the half year ended	28 Feb 21	31 Aug 20	29 Feb 20
Net tangible asset backing - cents per share	16.1	13.1	17.6

## 5. SUBSIDIARIES AND GAIN OR LOSS OF CONTROL OVER ENTITIES DURING THE PERIOD

Apart from the additional ownership of Clear Skincare Clinics noted in Note 9 and the additional investment in SiSU Wellness Pty Ltd noted in Note 10 of the interim financial report, there were no acquisitions, disposals, or loss of control over any entities during the half year ended 28 February 2021.

The Company has a New Zealand subsidiary which adopts the New Zealand equivalents of the International Financial Reporting Standards ('NZIFRS') which is consistent with the framework adopted by the Company.

# APPENDIX 4D

**Australian Pharmaceutical Industries Limited**

**ABN 57 000 004 320**

**Interim financial report for the period ended 28 February 2021**



## 6. FINANCIAL STATEMENTS

The following additional Appendix 4D disclosure requirements can be found in the attached Interim Financial Report for the half year ended 28 February 2021, which contains the Directors' Report, the Directors' Declaration and the 28 February 2021 consolidated financial statements and accompanying notes:

- Consolidated income statement;
- Consolidated statement of comprehensive income;
- Consolidated balance sheet;
- Consolidated statement of changes in equity;
- Consolidated statement of cash flows;
- Condensed notes to the consolidated financial statements;
- Review of operations; and
- Returns to shareholders including distributions and earnings per share.

The consolidated financial statements have been subject to review and are not subject to any dispute or qualification.

## 7. COMMENTARY ON THE RESULTS FOR THE PERIOD

7.1 The earnings per security and the nature of any dilution aspects.

Please refer to Note 5 of the attached Consolidated Interim Financial Report for the half year ended 28 February 2021.

7.2 Returns to shareholders including distributions and buy backs.

Please refer to Consolidated Statement of Changes in Equity of the attached Consolidated Interim Financial Report for the half year ended 28 February 2021.

7.3 Significant features of operating performance.

Please refer to the attached Directors' Report for the half year ended 28 February 2021.

7.4 The results of segments that are significant to an understanding of the business as a whole.

Please refer to Note 2 of the attached Consolidated Interim Financial Report for the half year ended 28 February 2021.

7.5 A discussion of trends in performance.

Please refer to the Results Announcement and Results Presentation issued 22 April 2021.

7.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.

Please refer to the Results Announcement and Results Presentation issued 22 April 2021.

## 8. AUDIT AND RISK COMMITTEE

The entity has a formally constituted Audit and Risk Committee.

## APPENDIX 4D

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Interim financial report for the period ended 28 February 2021



### ATTACHMENT 1 – RECONCILIATION OF REPORTED INFORMATION TO UNDERLYING INFORMATION

Reconciliation of reported NPAT to underlying NPAT <i>In thousands of AUD</i>	Half year ended	
	28 Feb 21	29 Feb 20
Reported NPAT	15,920	22,511
Add:		
Costs incurred for business restructuring and reorganisation <sup>(i)</sup>	625	2,907
Costs incurred for strategic business initiatives <sup>(i)</sup>	1,166	-
<b>Underlying NPAT</b>	<b>17,711</b>	<b>25,418</b>
<b>Underlying basic earnings per share (in cents)</b>	<b>3.6</b>	<b>5.2</b>

(i) All costs associated with business restructuring and reorganisation and strategic business initiatives are included in Administration and general expenses within the Consolidated Income Statement.

Underlying NPAT and underlying basic earnings per share are non-statutory measures used by the Chief Operating Decision Maker to measure the financial performance of the Group.

We believe these non-statutory measures provide useful information to understand the financial performance of the Group, but should not be considered as an indication of, or substitution for reported information. Underlying NPAT and underlying basic earnings per share have not been audited or reviewed in accordance with Australian Auditing Standards.

## DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Australian Pharmaceutical Industries Limited ('the Company' or 'API') and the entities it controlled at the end of, or during, the half year ended 28 February 2021 ('the Group') and the auditor's review report thereon.

### Directors

The Directors of the Company during the half year and until the date of this report unless otherwise stated are:

Mr Kenneth W Gunderson-Briggs	Non-executive Director and Chairman	Appointed Chair 4 December 2020
Ms Lee Ausburn	Non-executive Director	
Ms Jennifer Macdonald	Non-executive Director	
Ms Janine Allis	Non-executive Director	Appointed 23 October 2020
Mr Clive Stiff	Non-executive Director	Appointed 4 December 2020
Mr Mark Smith	Non-executive Director and Chairman	Resigned 4 September 2020
Mr Richard C Vincent	Executive Director and Chief Executive Officer	

### Review of operations

These results are evidence of the resilience of API as the business was significantly impacted by lockdown restrictions across Australia and New Zealand through the reporting period. The Company invested significantly in its retail digital capability, in an acquisition tranche for Clear Skincare, and in other areas of growth during the reporting period. API is well placed to invest further in these areas with its net debt broadly consistent with the prior period despite these investments. During the half year Pharmacy Distribution continued to lower its costs and benefited from the 7<sup>th</sup> Community Pharmacy Agreement which provides certainty of funding out to 2025. Despite COVID impacts Priceline Pharmacy continued to roll out its digital strategy and online sales rapidly increased. Clear Skincare grew its network of clinics as it positions itself to be one of the leading participants in a high growth market, and Consumer Brands further increased its private label and over the counter product range whilst encountering delays with raw material sourcing and lower cold and flu demand due to COVID.

- Revenue was down 2.6% to \$2.0 billion
- Earnings before interest and tax was down 25.2% to \$29.4 million
- Reported net profit after tax was down 29.3% to \$15.9 million
- Underlying net profit after tax was down 30.3% to \$17.7 million

Group Revenue reduced 2.6% on the pcp to \$2.0 billion, evidence of the Company's resilience in the face of lockdown restrictions, the comparison period was prior to the impacts of the pandemic and did not contain the effect of any lockdown restrictions. Of particular note, Clear Skincare grew reported revenue by 11% to \$27.3 million, with higher growth in locations not impacted by lockdown restrictions.

Net Profit after Tax (NPAT) was down 29.3% on the prior corresponding period (pcp) to \$15.9 million and Underlying NPAT was down 30.3% to \$17.7 million. These results were achieved in a half year that contained pandemic-related lockdown restrictions in Australia and New Zealand which resulted in both Clear Skincare clinics and Priceline company owned stores temporarily closing, and a significant reduction in foot traffic in CBD locations negatively impacting on Priceline Pharmacy stores in those locations. The cost of operating businesses that were closed due to lockdown restrictions and impacted by CBD lost volume is evident in the reduction in NPAT. The underlying adjustments relate to restructuring our cost of doing business that were initiated during COVID for future savings, and strategic initiatives.

The Group continues to generate cash particularly through the Pharmacy Distribution business. The Company's balance sheet capacity allows it to continue to invest to generate growth: Net Debt was \$134.6 million, up 3.8% over the pcp despite investing \$50.5 million during the half in retail focussed digital initiatives, further instalment of the Clear Skincare acquisition and new clinics, and in the technology required for the new NSW distribution centre. Cash conversion days improved from 22.0 to 17.8 days, which reflects the results of the inventory optimisation program which utilises artificial intelligence to determine the optimal level of stock holdings, resulting in a reduction in inventory. There were also further improvements in debtor and creditor management.

### Pharmacy Distribution

Pharmacy Distribution revenue reduced by 0.9% on the pcp to \$1.5 billion. This result reflects our strong offering to pharmacists and in particular we experienced growth in sales from independent community pharmacists broadly offsetting the anticipated loss of a small amount of volume from a large pharmacy group that was transitioning back to their original wholesaler. Pharmacy Distribution remains our cornerstone business that enables us to invest in growth, and it continues to focus on expanding its high return business, on winning new customer groups, and on developing our banner brands and retail services.

## DIRECTORS' REPORT

### Priceline Pharmacy Retail Network

Priceline Pharmacy total network retail register revenue reduced 10.3% to \$526 million. During this reporting period retail conditions were exacerbated by COVID related lockdown restrictions, reduced foot traffic in CBD locations, reduced demand for colour cosmetics and for high margin cold and flu remedies as social distancing and lockdowns reduced the incidence of cold and flu in the community. Our online sales grew 52% on the pcp reflecting the Group's focus on Priceline's digital strategy and particularly the significant take up of its 'click and collect' from stores service and 'click and deliver' to home service. The results of the relaunch of our Sister Club loyalty program are beginning to take hold with sales to Sister Club members representing 56.1% of register revenue, up from 54.3% in the pcp. As a result, overall Priceline market share held.

Our Priceline Pharmacy network store numbers remained for the half year at 474 stores. This includes the work done to close Priceline Pharmacies in locations that are not attracting substantial foot traffic, such as in CBD locations, and to open stores in locations that are forecast to grow significantly. The Priceline Pharmacy brand position remains strong as does demand from pharmacists to open new Priceline Pharmacy stores.

### Clear Skincare

Clear Skincare revenue increased by 11.0% to \$27.3 million. This reflects sales from the expanded clinic network. Clear Skincare had 75 clinics at half year end, which was up by 16 clinics on the pcp, an increase of 27.1%, reflecting a substantial investment in growing our network of owned clinics. In line with industry standards our clinics take on average 2.5 years to become profitable and therefore the results of this investment in new clinics is expected to be reflected in future reporting periods.

The business continues to focus on a high-quality consistent service offering across its clinics, broadening the range of skin treatments and unique single ingredient products it offers. The Clear Skincare products range continues to sell well through Clear Skincare clinics and through the Priceline Pharmacy network. Since API acquired Clear Skincare overall customer satisfaction has increased by 54%.

### Consumer Brands

Consumer Brands revenue reduced 3.0% to \$27.5 million as a result of delays in receiving raw material from China and India and from substantially reduced demand for cold and flu products, one of its main revenue lines. During COVID Consumer Brands took the opportunity to increase its range of product lines, providing private label over the counter products to our Pharmacy Distribution and Priceline Pharmacy partners.

### **Significant event during the half**

On 1 September 2020, the Group paid \$32.9m to the minority shareholders of the Clear Skincare business to increase the ownership interest in this business from 50.2% to 75.2%, in line with the Shareholders' agreement.

### **Dividends**

The Company paid a final dividend of 2.00 cents per share for the FY20 year on 15 December 2020, fully franked, amounting to \$9.9 million.

On 21 April 2021, the Board proposed to pay an interim dividend of 1.50 cents per share, fully franked to be paid on 4 June 2021 amounting to \$7.4 million.

### **Auditor's Independence Declaration**

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 6 and forms part of this report.

### **Rounding of amounts to nearest thousand dollars**

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the financial report and the Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of Directors:



Kenneth W Gunderson-Briggs  
Chairman

Melbourne  
21 April 2021



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Pharmaceutical Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Pharmaceutical Industries Limited for the half-year ended 28 February 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Tony Romeo

*Partner*

Melbourne

21 April 2021

## INTERIM FINANCIAL REPORT

### CONSOLIDATED INCOME STATEMENT

<i>In thousands of AUD</i>	Note	Half year ended	
		28 Feb 21	29 Feb 20
Revenue	3	1,980,501	2,033,067
Cost of sales		(1,730,403)	(1,777,852)
<b>Gross profit</b>		<b>250,098</b>	<b>255,215</b>
Other income	3	3,653	11,489
Warehousing and distribution expenses		(71,731)	(74,418)
Marketing and sales expenses		(93,350)	(99,368)
Administration and general expenses		(59,254)	(53,614)
<b>Profit from operating activities (EBIT)</b>		<b>29,416</b>	<b>39,304</b>
Finance income	4	-	77
Finance expenses	4	(7,565)	(10,331)
<b>Net finance costs</b>		<b>(7,565)</b>	<b>(10,254)</b>
<b>Profit before tax</b>		<b>21,851</b>	<b>29,050</b>
Income tax expense		(5,931)	(6,539)
<b>Profit for the half year</b>		<b>15,920</b>	<b>22,511</b>
<b>Attributable to:</b>			
Ordinary shareholders of the Company		15,866	21,757
Non-controlling interest		54	754
<b>Profit for the half year</b>		<b>15,920</b>	<b>22,511</b>
<b>Earnings per share for profit attributable to the ordinary shareholders of the Company:</b>		<b>cents</b>	<b>cents</b>
Basic earnings per share	5	3.2	4.4
Diluted earnings per share	5	3.2	4.4

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

## INTERIM FINANCIAL REPORT

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of AUD</i>	Note	Half year ended	
		28 Feb 21	29 Feb 20
Profit for the half year		15,920	22,511
<b>Other comprehensive income/(loss)</b>			
<b><i>Items that will not be reclassified subsequently to the consolidated income statement</i></b>			
Changes in the fair value of financial assets at fair value through other comprehensive income (post tax)	10	-	(5,087)
<b>Total items that will not be reclassified</b>		-	<b>(5,087)</b>
<b><i>Items that may be reclassified subsequently to the consolidated income statement</i></b>			
Exchange fluctuations on translation of foreign operations (post tax)		828	593
Effective portion of changes in fair value of cash flow hedges (post tax)		205	(31)
<b>Total items that may be reclassified</b>		<b>1,033</b>	<b>562</b>
<b>Total other comprehensive income/(loss) for the half year</b>		<b>1,033</b>	<b>(4,525)</b>
<b>Total comprehensive income for the half year</b>		<b>16,953</b>	<b>17,986</b>
<b>Attributable to:</b>			
Ordinary shareholders of the Company		16,899	17,232
Non-controlling interest		54	754
<b>Total comprehensive income for the half year</b>		<b>16,953</b>	<b>17,986</b>

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## INTERIM FINANCIAL REPORT

### CONSOLIDATED BALANCE SHEET

<i>In thousands of AUD</i>	Note	As at	
		28 Feb 21	31 Aug 20
<b>Current assets</b>			
Cash and cash equivalents		55,270	60,713
Trade and other receivables		508,828	537,899
Inventories		368,254	368,180
Lease receivables		5,603	6,530
Income tax receivable		168	-
<b>Total current assets</b>		<b>938,123</b>	<b>973,322</b>
<b>Non-current assets</b>			
Trade and other receivables		21,205	22,534
Lease receivables		20,552	23,002
Financial assets at fair value through other comprehensive income	9	2,400	1,200
Deferred tax assets		21,502	19,900
Right-of-use assets		117,906	125,079
Property, plant and equipment		116,713	109,817
Intangible assets	6	267,163	268,117
<b>Total non-current assets</b>		<b>567,441</b>	<b>569,649</b>
<b>Total assets</b>		<b>1,505,564</b>	<b>1,542,971</b>
<b>Current liabilities</b>			
Trade and other payables		639,392	741,945
Loans and borrowings	8	14,588	8,260
Lease liabilities		40,716	40,404
Provisions		32,861	34,632
Income tax payable		-	7,441
<b>Total current liabilities</b>		<b>727,557</b>	<b>832,682</b>
<b>Non-current liabilities</b>			
Trade and other payables		-	33,431
Loans and borrowings	8	175,273	70,423
Lease liabilities		131,152	141,790
Provisions		7,283	6,899
<b>Total non-current liabilities</b>		<b>313,708</b>	<b>252,543</b>
<b>Total liabilities</b>		<b>1,041,265</b>	<b>1,085,225</b>
<b>Net assets</b>		<b>464,299</b>	<b>457,746</b>
<b>Equity</b>			
Share capital		566,461	566,461
Reserves		45,025	38,526
Accumulated losses		(151,090)	(151,090)
<b>Total equity attributable to shareholders of the Company</b>		<b>460,396</b>	<b>453,897</b>
<b>Non-controlling interest in controlled entities</b>		<b>3,903</b>	<b>3,849</b>
<b>Total equity</b>		<b>464,299</b>	<b>457,746</b>

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

## INTERIM FINANCIAL REPORT

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of AUD	Attributable to ordinary shareholders of API Limited									Non-controlling interest	Total Equity
	Share Capital	Accumulated Losses	Profits <sup>(i)</sup> Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Control Reserve	Fair Value Reserve	Total		
<b>Balance at 31 August 2020</b>	<b>566,461</b>	<b>(151,090)</b>	<b>96,949</b>	<b>458</b>	<b>(220)</b>	<b>5,960</b>	<b>(64,621)</b>	<b>-</b>	<b>453,897</b>	<b>3,849</b>	<b>457,746</b>
Profit after tax	-	-	15,866	-	-	-	-	-	15,866	54	15,920
Total other comprehensive income/(loss)	-	-	-	828	205	-	-	-	1,033	-	1,033
Total comprehensive income for the half year	-	-	15,866	828	205	-	-	-	16,899	54	16,953
<b>Transactions with owners, recorded directly in equity</b>											
Dividends to equity holders	-	-	(9,853)	-	-	-	-	-	(9,853)	-	(9,853)
Unwinding of discount on put and call option	-	-	-	-	-	-	(579)	-	(579)	-	(579)
Share based payments	-	-	-	-	-	32	-	-	32	-	32
Total contributions by and distributions to owners	-	-	(9,853)	-	-	32	(579)	-	(10,400)	-	(10,400)
<b>Balance at 28 February 2021</b>	<b>566,461</b>	<b>(151,090)</b>	<b>102,962</b>	<b>1,286</b>	<b>(15)</b>	<b>5,992</b>	<b>(65,200)</b>	<b>-</b>	<b>460,396</b>	<b>3,903</b>	<b>464,299</b>
<b>Balance at 31 August 2019</b>	<b>566,461</b>	<b>(127,847)</b>	<b>116,656</b>	<b>1,358</b>	<b>(139)</b>	<b>5,717</b>	<b>(62,311)</b>	<b>1,364</b>	<b>501,259</b>	<b>3,391</b>	<b>504,650</b>
Adjustment on Adoption of AASB 16	-	(11,125)	-	-	-	-	-	-	(11,125)	-	(11,125)
<b>Balance at 1 September 2019</b>	<b>566,461</b>	<b>(138,972)</b>	<b>116,656</b>	<b>1,358</b>	<b>(139)</b>	<b>5,717</b>	<b>(62,311)</b>	<b>1,364</b>	<b>490,134</b>	<b>3,391</b>	<b>493,525</b>
Profit after tax	-	-	21,757	-	-	-	-	-	21,757	754	22,511
Total other comprehensive income / (loss)	-	-	-	593	(31)	-	-	(5,087)	(4,525)	-	(4,525)
Total comprehensive income /(loss) for the half year	-	-	21,757	593	(31)	-	-	(5,087)	17,232	754	17,986
<b>Transactions with owners, recorded directly in equity</b>											
Dividends to equity holders	-	-	(19,706)	-	-	-	-	-	(19,706)	-	(19,706)
Unwinding of discount on put and call option	-	-	-	-	-	-	(1,140)	-	(1,140)	-	(1,140)
Share based payments	-	-	-	-	-	806	-	-	806	-	806
Total contributions by and distributions to owners	-	-	(19,706)	-	-	806	(1,140)	-	(20,040)	-	(20,040)
<b>Balance at 29 February 2020</b>	<b>566,461</b>	<b>(138,972)</b>	<b>118,707</b>	<b>1,951</b>	<b>(170)</b>	<b>6,523</b>	<b>(63,451)</b>	<b>(3,723)</b>	<b>487,326</b>	<b>4,145</b>	<b>491,471</b>

(i) The profits reserve represents profits transferred to the reserve at the end of a financial period to preserve the characteristic as a profit and not appropriate those profits against prior year accumulated losses. These profits will be available to enable payment of franked dividends in the future.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## INTERIM FINANCIAL REPORT

### CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of AUD</i>	Note	Half year ended	
		28 Feb 21	29 Feb 20
<b>Cash flows from operating activities</b>			
Cash receipts from customers (inclusive of GST)		2,208,242	2,381,858
Cash payments to suppliers and employees (inclusive of GST)		(2,210,586)	(2,252,653)
<b>Cash (outflows) / inflows from operations</b>		<b>(2,344)</b>	<b>129,205</b>
Interest received		-	77
Finance costs paid		(4,799)	(7,030)
Income taxes paid		(15,142)	(10,777)
<b>Net cash (outflows) / inflows from operating activities</b>		<b>(22,285)</b>	<b>111,475</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		3,500	64
Payments for property, plant and equipment and intangibles		(24,347)	(21,350)
(Payments for) / Proceeds from financial assets at fair value through other comprehensive income		(1,200)	82,178
Payments for minority interest acquired		(32,900)	-
Receipts from subleases		3,805	4,481
Dividends received	3	-	1,373
<b>Net cash (outflows) / inflows from investing activities</b>		<b>(51,142)</b>	<b>66,746</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,896,419	2,000,030
Repayment of borrowings		(2,795,176)	(2,088,488)
Repayments of principal on lease liabilities		(33,339)	(35,331)
Dividends paid		(9,853)	(19,706)
<b>Net cash inflows / (outflows) from financing activities</b>		<b>58,051</b>	<b>(143,495)</b>
Net (decrease) / increase in cash and cash equivalents		(15,376)	34,726
Cash and cash equivalents at the beginning of the financial period		56,061	30,181
Effect of exchange rate fluctuations on cash held		-	(2)
<b>Cash and cash equivalents at the end of the half year <sup>(i)</sup></b>		<b>40,685</b>	<b>64,905</b>

(i) Cash and cash equivalents include bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

<i>In thousands of AUD</i>	As at	
	28 Feb 21	31 Aug 20
<b>Cash and cash equivalents in the Consolidated balance sheet</b>	<b>55,270</b>	<b>60,713</b>
Bank overdrafts repayable on demand and used for cash management purposes	(14,585)	(4,652)
<b>Cash and cash equivalents in the Consolidated statement of cash flows</b>	<b>40,685</b>	<b>56,061</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# INTERIM FINANCIAL REPORT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

Australian Pharmaceutical Industries Limited (the 'Company') is a for-profit company limited by shares incorporated and domiciled in Australia. The Consolidated Interim Financial Report (the 'Financial Report') of the Company for the half year ended 28 February 2021 comprises the Company and its subsidiaries (together referred to as the 'Group').

#### a) Statement of compliance

This general purpose Consolidated Interim Financial Report has been prepared in accordance with the requirements of the applicable Australian Accounting Standards including AASB 134 Interim Financial Reporting, Australian Interpretations, Corporations Act 2001 and IAS 34 Interim Financial Reporting.

#### b) Basis of preparation

The Financial Report is presented in Australian dollars which is the functional currency of the Group. The Financial Report has been prepared on a historical cost basis, except for financial instruments and employee defined benefit plans which are stated at fair value.

The Financial Report does not include all of the notes normally included in an annual Financial Report. This report is to be read in conjunction with the Group's Annual Financial Report for the year ended 31 August 2020, together with any public announcements made by the Company during or since the half year ended 28 February 2021 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

#### c) Estimates

The preparation of the Interim Financial Report requires judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

In preparing the Financial Report the significant judgements made in applying the consolidated accounting policies and the key sources of estimation uncertainty are consistent with those applied in the most recent Annual Report for the year ended 31 August 2020.

#### Impact of COVID-19

The ongoing COVID-19 pandemic has continued to impact the Group and the economy as a result of the actions of governments, businesses and consumers to contain the spread of the virus. During the half year, the Group experienced the following impacts on its operations:

- State imposed short-term lockdowns across Australia resulted in the temporary closure of a number of Priceline retail stores during the half. Stage four restrictions in Victoria resulted in the closure of Priceline retail stores which continued to 19 October 2020. Priceline Pharmacies and associated wholesale activities are classified as essential services and continued to operate during the period.
- Clear Skincare Clinics were classed as non-essential services and entered temporary mandatory shutdown in Victoria during FY20 which continued to 19 October 2020. Following this, State imposed short-term lockdowns across Australia and New Zealand resulted in the temporary closure of various Clear Skincare clinics during the half.
- Changes in supply and demand for pharmaceutical products have placed pressure on the supply chain.

As a result of COVID-19 the Group has reassessed accounting estimates relevant when assessing impairment of non-current assets, provisions for trade and other receivables and net realisable value of inventory.

#### d) New accounting standards and interpretations

Since 31 August 2020, the Group has not adopted any new or amended accounting standards.

## INTERIM FINANCIAL REPORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### e) Accounting standards issued but not yet implemented

The following relevant accounting standards have recently been issued or amended but are not yet effective and have not been adopted for this half year reporting period. These are not expected to have a material impact to the Group.

Reference	Title	Expected Adoption Date
AASB 2020-8	Amendments to AASB - Interest Rate Benchmark: Phase 2	1 September 2021
AASB 2017-5	Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 September 2022
AASB 2020-3	Amendments to Australian Accounting Standards - Annual improvements 2018 - 2020 and Other Amendments	1 September 2022
AASB 2020-1	Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current - Deferral of Effective Date	1 September 2023
AASB 17	Insurance Contracts	1 September 2023

##### f) Rounding

The amounts shown in this Financial Report have been rounded off, except where otherwise stated, to the nearest thousand dollars as the Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016.

#### 2. SEGMENT REPORT

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the other segments. AASB 8 *Operating Segments* requires disclosure of segment information on the same basis as that used for internal reporting provided to the Chief Operating Decision Maker (CODM) of the Group. The CODM has been identified as the Chief Executive Officer (CEO).

Segment information is presented to the CEO for the following segments:

Segment	Principal activities
Australia	Distribution of pharmaceutical, medical, health, beauty and lifestyle products and retail services to pharmacies, the purchase and sale of health, beauty and lifestyle products and services within the retail industry including cosmetic products and non-invasive procedures. The Group predominantly operates within Australia. Monthly management reports provided to the CEO report Australian reportable segment profit.
New Zealand	Manufacturer and owner of rights for pharmaceutical medicines and consumer toiletries. Products are sold in New Zealand and exported.

In thousands of AUD	Half year ended February							
	Australia		New Zealand		Eliminations		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020
<b>Revenue</b>								
External sales	1,880,426	1,936,319	23,073	20,287	-	-	1,903,499	1,956,606
External services	77,002	76,461	-	-	-	-	77,002	76,461
Inter-segment revenue <sup>(i)</sup>	-	-	4,406	8,057	(4,406)	(8,057)	-	-
<b>Total segment revenue</b>	<b>1,957,428</b>	<b>2,012,780</b>	<b>27,479</b>	<b>28,344</b>	<b>(4,406)</b>	<b>(8,057)</b>	<b>1,980,501</b>	<b>2,033,067</b>
Reportable segment gross profit	236,618	244,431	10,489	10,784	2,991	-	250,098	255,215
<b>Reportable segment profit</b>	<b>29,471</b>	<b>40,563</b>	<b>(3,046)</b>	<b>(1,259)</b>	<b>2,991</b>	<b>-</b>	<b>29,416</b>	<b>39,304</b>
<b>Unallocated amounts</b>								
Net financing costs							(7,565)	(10,254)
<b>Profit before tax</b>							<b>21,851</b>	<b>29,050</b>
Income tax expense							(5,931)	(6,539)
<b>Profit for the half year</b>							<b>15,920</b>	<b>22,511</b>
<b>Attributable to:</b>								
Ordinary shareholders of the Company							15,866	21,757
Non-controlling interest							54	754

(i) All inter-segment sales are on an arm's length basis.

## INTERIM FINANCIAL REPORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 3. REVENUE, OTHER INCOME AND EXPENSES

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 21	29 Feb 20
<b>Revenue</b>		
Sales revenue	1,903,499	1,956,606
Service revenue	77,002	76,461
<b>Total revenue</b>	<b>1,980,501</b>	<b>2,033,067</b>
<b>Other income</b>		
Gain on disposal of property, plant and equipment	2,682	64
Interest fee income	951	3,106
Net foreign exchange gain	20	6
Dividend income	-	1,373
Change in the fair value of financial liabilities	-	6,940
<b>Total other income</b>	<b>3,653</b>	<b>11,489</b>

During the financial year, the Group incurred business restructuring and reorganisation expenses of \$893,000 (pre-tax) and costs incurred in relation to strategic business initiatives of \$1,665,000 (pre-tax). These expenses have been recognised within the Consolidated Income Statement under Administration and general expenses.

#### 4. FINANCE INCOME AND COSTS

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 21	29 Feb 20
Interest income on bank deposits	-	77
<b>Finance income</b>	<b>-</b>	<b>77</b>
Interest expense	(2,213)	(3,884)
Borrowing costs	(1,152)	(1,327)
API rewards	(1,534)	(2,126)
Finance expense on leased assets	(2,666)	(2,994)
<b>Finance expenses</b>	<b>(7,565)</b>	<b>(10,331)</b>
<b>Net finance costs</b>	<b>(7,565)</b>	<b>(10,254)</b>

#### 5. EARNINGS PER SHARE

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 21	29 Feb 20
<b>Profit attributable to shareholders of the Company</b>	<b>15,866</b>	<b>21,757</b>
<b><i>In thousands of shares</i></b>		
Basic weighted average number of ordinary shares for the half year	492,656	492,608
Effect of potential ordinary shares on issue through conversion of performance rights	5,502	4,083
<b>Diluted weighted average number of shares for the half year</b>	<b>498,158</b>	<b>496,691</b>
<b><i>In cents</i></b>		
Basic earnings per share	3.2	4.4
Diluted earnings per share	3.2	4.4

## INTERIM FINANCIAL REPORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 6. INTANGIBLE ASSETS

##### Impairment test for Cash Generating Units (CGU) containing Goodwill and Brand Names

The Group has identified the following cash generating units to which goodwill and brand names with indefinite useful lives have been allocated:

<i>In thousands of AUD</i>	Australia		New Zealand		Clear Skincare		Total	
	28 Feb 21	31 Aug 20	28 Feb 21	31 Aug 20	28 Feb 21	31 Aug 20	28 Feb 21	31 Aug 20
<b>Brand names</b>								
Priceline brand name	58,860	58,860	-	-	-	-	58,860	58,860
Clearskincare brand name	-	-	-	-	34,601	34,601	34,601	34,601
<b>Brand names</b>	<b>58,860</b>	<b>58,860</b>	<b>-</b>	<b>-</b>	<b>34,601</b>	<b>34,601</b>	<b>93,461</b>	<b>93,461</b>
<b>Goodwill</b>	<b>47,232</b>	<b>47,232</b>	<b>16,850</b>	<b>16,387</b>	<b>64,293</b>	<b>64,293</b>	<b>128,375</b>	<b>127,912</b>
<b>Other intangible assets</b>	<b>42,400</b>	<b>43,419</b>	<b>2,864</b>	<b>3,262</b>	<b>63</b>	<b>63</b>	<b>45,327</b>	<b>46,744</b>
<b>Total intangible assets</b>	<b>148,492</b>	<b>149,511</b>	<b>19,714</b>	<b>19,649</b>	<b>98,957</b>	<b>98,957</b>	<b>267,163</b>	<b>268,117</b>

Indefinite life intangible assets are tested for impairment at least annually by calculating the recoverable amount of the CGU to which the assets are part. The assets are then compared to the carrying value of that CGU. The Australia, New Zealand and Clear Skincare CGUs, were tested for impairment indicators at reporting date. As a result of impairment indicators relating to the New Zealand CGU, an impairment assessment was conducted including sensitivity analysis on the key assumptions. The estimated recoverable amount for the New Zealand CGU continues to exceed the carrying value.

#### 7. CONTINGENCIES

##### Contingent liabilities

<i>In thousands of AUD</i>	As at	
	28 Feb 21	31 Aug 20
Financial guarantees to pharmacists	8,990	9,175

Financial guarantees of \$8,989,864 (31 August 2020: \$9,175,351) have been provided to financial institutions of individual debtors and debtor groups. The Group has strict controls over the approval of guarantees of pharmacy customers and takes security over the assets of the relevant pharmacy. The Directors are of the opinion that provisions are not required in respect of these guarantees, as it is not probable that the exposure is greater than the value of the security held over the assets.

#### 8. COMMITMENTS

During the half year ended 28 February 2021, the Group entered into a contract for the purchase, delivery and installation of a logistics system and a commitment to lease in relation to a new distribution centre in Sydney, Australia. It is estimated that the distribution centre will be completed in Financial Year 2022 with the lease term commencing from that date. The total estimated costs associated with these commitments is \$89,381,000 over the construction and committed lease period.

## INTERIM FINANCIAL REPORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 9. LOANS AND BORROWINGS

<i>In thousands of AUD</i>	As at	
	28 Feb 21	31 Aug 20
<b>Current liabilities</b>		
Insurance premium funding	-	3,608
Bank overdraft	14,588	4,652
<b>Total current liabilities</b>	<b>14,588</b>	<b>8,260</b>
<b>Non current liabilities</b>		
Securitisation facilities	69,379	-
Cash advance facilities - secured	40,894	5,423
Interest bearing loans	65,000	65,000
<b>Total non current liabilities</b>	<b>175,273</b>	<b>70,423</b>

On the 29 February 2020, the Securitisation facilities were \$70,058,568.

In September 2020, the Cash advance facility was drawn down by \$32,915,000 to fund Tranche 2 of the Clear Skincare Clinics acquisition. The non-current cash advance loan facility term was extended to March 2022.

The facilities are secured by way of a fixed and floating charge over the assets of the Group. Interest is based on the bank-bill reference rate plus a margin charged by the lender.

#### 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 1 September 2020, API paid a further \$1,200,006 to acquire an additional share in SiSU Wellness Pty Ltd, resulting in a total ownership interest of 11% at 28 February 2021.

##### (a) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise of equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category.

##### (b) Financial assets at fair value through other comprehensive income

Financial assets at FVOCI comprise the following individual investments:

<i>In thousands of AUD</i>	As at	
	28 Feb 21	31 Aug 20
<b>Non-current assets</b>		
SiSU Wellness Pty Ltd - Unlisted securities	2,400	1,200
<b>Total financial assets at fair value through other comprehensive income</b>	<b>2,400</b>	<b>1,200</b>

##### (c) Amounts recognised in the profit or loss and other comprehensive income

During the period, the following gains/(losses) were recognised in profit or loss and other comprehensive income.

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 21	29 Feb 20
Changes in the fair value of financial assets at FVOCI recognised in other comprehensive income	-	(5,087)
Dividend from financial assets at FVOCI recognised in profit or loss	-	1,373

##### (d) Risk exposure

The Group had no material exposure to equity price risk at 28 February 2021.

## INTERIM FINANCIAL REPORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 11. CAPITAL AND RESERVES

<i>In thousands of shares</i>	As at	
	28 Feb 21	31 Aug 20
Shares on issue at beginning of the period - fully paid	492,656	492,533
Ordinary shares issued during the period pursuant to the Company's Long Term Incentive Plan	-	123
<b>Shares on issue at the end of the period - fully paid</b>	<b>492,656</b>	<b>492,656</b>

Equity item	Description and accounting policy
Ordinary shares	The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid and are recognised at the fair value of the consideration received by the Company, net of post-tax share issue costs. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of a winding up of the Company, ordinary shareholders rank after all other creditors and are fully entitled to any proceeds of liquidation.
Translation reserve	The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where the functional currency is different to the presentation currency of the Company.
Equity reserve	The equity reserve relates to share-based payment transactions measured at fair value.
Hedging reserve	The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.
Control reserve	The control reserve represents additional consideration to be paid for the acquisition of non-controlling shareholders' interests in Clear Skincare Clinics.
Non-controlling interest	Represents the non-controlling interest in the Clear Skincare Clinics business that is held by other minority shareholders. This is recognised as the non-controlling interest's proportionate share of Clear Skincare Clinic's net identifiable assets.
Fair value reserve	The net change in the fair value of financial assets measured at fair value through other comprehensive income is shown in this reserve and will not be subsequently reclassified to profit or loss. However, the net change may be reclassified within equity.

## INTERIM FINANCIAL REPORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 12. FAIR VALUE MEASUREMENTS

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate the fair values of these financial assets and financial liabilities.

Financial Instruments	Fair Value Technique
Interest rate swaps	Cash flow hedges are Level 2 financial instruments because, unlike Level 1 financial instruments, the measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). The fair value of cash flow hedges have been obtained from third party valuations derived from forward interest rates at the balance sheet date.
Foreign exchange forwards	Fair value is determined using prevailing forward exchange rates.
Defined benefit asset	The employee defined benefit plan financial asset is measured using Level 3 inputs, being an independent actuarial valuation performed on an annual basis.
Put and call option liability	The put and call option liability recognised on the acquisition of Clear Skincare has been measured using Level 3 inputs being the present value, discounted using a risk adjusted discount rate of the exercise price of the option which is a fixed amount.
Other financial liabilities (Amounts payable to non-controlling interests)	Other financial liabilities include liabilities relating to the mandatory dividend payments and contingent consideration payable to non-controlling shareholders of Clear Skincare. The Group has assessed these liabilities as Level 3 financial instruments as there are no observable market inputs. The Group has determined fair value using the present value technique based on the probability weighted expected cash outflows, discounted using an appropriate risk adjusted discount rate. The probability assessment for the payment of mandatory dividends includes estimating the likelihood of performance hurdles being met for the payment of contingent consideration, and the expected level of future profitability of the Clear Skincare business.
Financial assets at fair value through other comprehensive income (FVOCI)	Financial assets at FVOCI are Level 3 financial instruments as the fair value can only be determined using unobservable inputs being the equity interest in a non-listed entity. In the prior year, financial assets at FVOCI were Level 1 financial instruments as the measurement was derived from quoted prices directly observable on the ASX.

There have been no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half-year.

At 28 February 2021 the fair value of the financial assets at FVOCI was \$2,400,012 (31 August 2020: \$1,200,006), the cash flow hedges were a liability of \$20,427 (31 August 2020: liability of \$313,214), the employee defined benefit plan an asset of \$648,000 (31 August 2020: asset of \$648,000) and the financial liabilities payable to non-controlling shareholders amounted to \$34,035,877 (31 August 2020: \$67,602,302).

#### 13. SUBSEQUENT EVENTS

On 21 April 2021, the Board proposed to pay an interim fully franked dividend of 1.50 cents per share to be paid on 4 June 2021.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 28 February 2021 that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

## DIRECTORS' DECLARATION

In the opinion of the Directors of Australian Pharmaceutical Industries Limited ("the Company"):

(a) the consolidated financial statements and notes set out on pages 7 to 18 are in accordance with the *Corporations Act 2001* including:

- (i) giving a true and fair view of the financial position of the Group as at 28 February 2021 and of its performance for the half year ended on that date; and
- (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 21<sup>st</sup> day of April 2021.

Signed in accordance with a resolution of the Directors:



Kenneth W Gunderson-Briggs  
Chairman



# Independent Auditor's Review Report

To the shareholders of Australian Pharmaceutical Industries Limited

## Report on the Interim Financial Report

### Conclusion

We have reviewed the accompanying **Interim Financial Report** of Australian Pharmaceutical Industries Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Australian Pharmaceutical Industries Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 28 February 2021 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*

The **Interim Financial Report** comprises:

- Consolidated balance sheet as at 28 February 2021
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Australian Pharmaceutical Industries Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.



## Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

## Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 28 February 2021 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Tony Romeo

*Partner*

Melbourne

21 April 2021