



Thursday, 23 April 2020

**2020 HALF YEAR RESULTS**  
**OPERATIONAL RESULTS IN LINE WITH EXPECTATIONS**  
**STRENGTHENED BALANCE SHEET WITH NET DEBT AND**  
**CASH CONVERSION DAYS REDUCED**

**Group Performance**

- API delivered in line with expectations
- Total revenue was \$2.0 bn, 2.8% up on the prior corresponding period (pcp)
- Underlying earnings before interest and tax (EBIT) was \$41.7m, down 6.1% on the pcp
- Underlying net profit after tax (NPAT), excluding AASB16 Leases, of \$26.3m, down 1.9% on the pcp
- Reported EBIT of \$39.3 million, down 11.5% on the pcp
- Reported NPAT of \$22.5m, down 9.9% on the pcp
- Business already prepared for lower growth environment
- Focus on cash management and assets positioned to sustain through COVID-19 pandemic

Australian Pharmaceutical Industries Limited (API) today announced for the half year ending 29 February 2020, underlying earnings before interest and tax (EBIT) was \$41.7m, down 6.1% on the pcp and underlying NPAT, excluding AASB16 Leases, was \$26.3m, down 1.9% on the pcp.

After adjusting for the impact of Hepatitis C medicines and PBS reforms, total revenue was also \$2.0 billion, up 1.8% on the pcp.

"The result is in line with expectations provided at our January AGM and reflects the generally challenging retail conditions and consumer sentiment, allied to timing of orders relative to last year and supplier delays impacting upon Consumer Brands' earnings.

"Critically, entering the current environment, API's financial position has strengthened as a result of our net debt reduction following the combination of debt repaid with the proceeds from the sale of our Sigma shareholding, and improved working capital and cash conversion" API's CEO & Managing Director, Mr Richard Vincent said.





Since the AGM, the business environment has altered considerably due to the impact of COVID-19. With its portfolio of complementary health and beauty assets, API is very well placed to compete in the new environment, having lowered its cost of operating, strengthened its balance sheet, evolved its customer offer based on customer insights and invested in growth assets.

API's cost of doing business fell by 6.1% on the pcp to 10.8% of sales. The half year financial statements include two underlying adjustments to NPAT: \$2.9 million relating to the cost of restructuring, including the closure of two distribution centres in Newcastle and Canberra which will generate permanent costs savings; and \$0.8 million relating to the impact of AASB 16 Leases. The restructuring program is ongoing, with further cost savings to be delivered in the second half.

API improved its balance sheet with Adjusted Net Debt<sup>1</sup> down to \$129.7m, a reduction of 50.5% on the pcp and cash conversion days of 22.0, a reduction of 7.3 days on the pcp. These improvements were on the back of a successful program to optimise inventory holdings.

API also reported Underlying Return on Equity of 11.36%, up 112 basis points on the pcp and Underlying Return on Capital Employed of 14.63%, down 44 basis points on the pcp.

Having built a portfolio of complementary businesses, API's focus has been on aligning these assets with changed market conditions to realise their potential.

"In our Priceline Pharmacy network, we had already understood consumers' shift to being more health and value conscious and had begun to leverage our offering and cost base to reflect that before COVID-19 hit. We have developed stronger credentials through machine-driven in-store health checks, medicine management apps, dose administration aid programs and a broader health product offering.

"We launched Click & Collect during the half and subsequently were able to rapidly deploy Click & Deliver during the COVID-19 pandemic, leveraging our store network to efficiently distribute to our customers. We also enhanced the Clear Skincare online store which keeps our customers connected with us.

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<sup>1</sup> On 29 February 2020, one of our transactional banks did not process \$53.8m payments in error. This amount has been added back to Net Debt to result in Adjusted Net Debt. The corresponding adjustment is to reported creditors



"Pre COVID-19, we had taken the opportunity to accelerate our investment in growth assets. We ramped up the rollout of Clear Skincare to 59 clinics, with our network of clinics 25% larger and we have invested in Consumer Brands product development expanding the range by another 74 products to 444. This business is now in a position to offer broader health and beauty ranges to its customers. Consumer Brands' location in the southern hemisphere makes it a unique and appealing choice for companies wishing to diversify their supply chain in the new environment" Mr Vincent said.

### **Priceline Pharmacy**

Total network like-for-like sales, excluding dispensary, were 1.3% down on the pcp and when dispensary is included like-for-like sales are up 0.9%. The total Priceline store network stood at 488 at 29 February, up by a net nine stores on the pcp.

Priceline's Sister Club loyalty program grew to 8.9 million member records, up 7.3% on the pcp, and Sister Club basket size increased 5.6% on the pcp.

"We had already begun to enhance the brand position to tap into a softer and highly competitive retail market, which was compounded by the bushfires. Our positioning through a change in product mix, service focus and targeted offers meant we were able to hold market share across the health, personal care and beauty segments.

"We launched 'Click & Collect' nationally before Christmas and since the end of the half we have rapidly deployed 'Click & Deliver', providing our customers with a range of convenient purchasing options" Mr Vincent said.

### **Pharmacy Distribution**

API's Pharmacy Distribution revenue, excluding Hepatitis C medicines was \$1.43 billion, up 7.1% on the pcp. Gross profit was up \$3 million, from \$109 million in the pcp to \$112 million.

"It remains a highly competitive marketplace, so I am pleased to say that we grew revenue and gross profit and we increased the overall number of stores in our banner groups. We now have over 1,500 members in our retail pharmacy programs compared to over 1,400 in the prior period.

"As part of our ongoing drive for efficiencies, we closed our Newcastle and Canberra distribution centres and consolidated their volumes into our Camellia DC. The one-off costs associated with these closures have been adjusted in our Underlying results," Mr Vincent said.



## **Consumer Brands**

Consumer Brands recorded declines in both revenue and gross profit over the pcpr, from \$34.1 million and \$16.7 million to \$28.3 million and \$10.8 million respectively.

"These sales figures in our Consumer Brands business reflect timing issues relative to orders that came through in the first half of last year. The business experienced supplier delays relating to importing raw materials and completed product and the impact of the lumpy nature of significant sale contracts.

"Consumer Brands' outlook remains positive, we are on track for a stronger second half, and we continue to invest in product development and expand the categories in which this division operates. COVID-19 has increased demand for particular health products and we have moved swiftly to meet this demand" Mr Vincent said.

## **Clear Skincare**

Clear Skincare revenue increased to \$24.6 million, up 12.8% on the pcpr. Gross profit was \$20.9 million, up 14.5%, reflecting strong margin management combined with the benefit of additional revenue from the new clinics. Total clinics stood at 59 compared to 47 at the end of the pcpr, a 25% increase.

"Clear Skincare's momentum built steadily throughout the half year, so we're well positioned to reignite growth once we are able to reopen the clinics" Mr Vincent said.

## **COVID-19**

### Community Pharmacy

As vital parts of the national health infrastructure, both Pharmacy Distribution and Priceline Pharmacy are expected to remain operational during the COVID-19 pandemic.

"Throughout our operations, and particularly in our distribution centres and pharmacies, we have structured and separated our teams with safety and continuity of service in mind. Where we had instances of COVID-19 infection, involving our Priceline Pharmacy teams, we've been able to work successfully with the franchisees and the State Health Departments to quarantine those who required it, deep clean the affected areas, get replacement staff in situ and re-open 24 hours later. We are well placed to cope with any future outbreaks wherever they may occur within our business network," Mr Vincent said.

Priceline pharmacies and company stores in Australia's CBDs and major shopping centres have seen foot traffic drop off whilst others more conveniently located in the communities they serve, continue to trade well. API will continue to monitor the financial performance of its Priceline network with the intention of keeping stores open and people employed where it is safe to do so. API has entered negotiations with landlords and in most instances those negotiations are proving fruitful.



"We have a brand offer which meets essential needs of consumers, so we are still a desirable destination. When consumers do go out to shop, they are generally engaging in targeted shopping, for scripts, health products, hair colour products, vitamins and skin care. While our overall basket size is up, particularly those baskets of our Priceline Sister Club members, foot traffic is significantly down on the same period last year.

"Given that background, we have increased our focus at Priceline Pharmacy on our health offering – both products and services. We were the first pharmacy chain to offer flu vaccinations nationally and we have already experienced very high demand for this service. We will provide more than 300,000 by the end of April 2020.

"Pleasingly, demand for our Click & Collect and Click & Deliver services significantly increased and that is almost certainly driven by the emergency measures currently in place" Mr Vincent said.

#### Clear Skincare

API closed all Clear Skincare clinics in New Zealand on Monday 23 March and in Australia on Wednesday 25 March and will follow Government advice as to when they can safely re-open. As with Priceline, negotiations with landlords are on-going.

API said its Clear Skincare Clinics were maintaining appropriate engagement with clients throughout this enforced shutdown with Clear Skincare products continuing to sell well online.

"The aim is to ensure that we can hit the ground running after this pandemic. We saw good take-up of Clear Skincare's product range through our Priceline Pharmacy network during the half year and we'll continue to sell these products during the enforced shutdown" Mr. Vincent said.

#### Consumer Brands

Since COVID-19 the Consumer Brands division is working near full capacity, with an immediate focus on manufacturing and sourcing high demand items such as cold and flu medicines, analgesics, and more recently hand sanitiser.

"To date, we are experiencing significant improvements in the second half. Provided we can secure raw materials and other inputs, we expect those improvements to be sustained through the remainder of the year.

"We have negotiated a strong pipeline of long-term contracts with distributors and retailers, both in Australia and overseas, across a range of health, beauty and personal care categories. We expect that demand for these ranges will pick up quickly after this pandemic" Mr Vincent said.



### Community Pharmacy Agreement

API reported previously that the Government has signalled its intention to maintain the funding of its Community Service Obligation (CSO), to ensure equity of access to PBS medicines for all Australians.

"There is not yet a final 7<sup>th</sup> Community Pharmacy Agreement in place. We have every reason to believe that the current system will continue to be well supported. I am extremely proud of the role we play in the healthcare infrastructure and I trust this will be recognised.

"Most of the major pharmaceutical manufacturers have now returned to the CSO system, which is indicative of the system's superior efficiency over alternative arrangements. Since then, the bushfire disaster and the COVID-19 pandemic have reinforced why the PBS medicines delivery system, which is underpinned by the CSO funding, is classified as critical national infrastructure for all Australians.

"Management's focus is firmly on ensuring that our people, franchisees, their employees and the community pharmacists we service, have all the support we can provide to help them go safely about their vital jobs" Mr Vincent said.

### **No Dividend Payment**

API's Board has resolved not to pay an interim dividend for the financial year ending 31 August 2020. This is considered to be a prudent approach to preserving cash in the current environment.

### **Outlook**

The API Board retains its confidence in the long-term growth prospects of its assets. However, it cannot offer guidance for the second half because of the volatility the ongoing COVID-19 pandemic is causing.

"API's strengthened balance sheet will give it flexibility in managing the business and investing for growth. From a capital management perspective, our focus will be on preserving cash in the short term.

"We previously announced that we are exploring options for a new, highly automated distribution centre in Sydney, which is likely to be \$50 million over and above normal capital expenditure levels. If we proceed according to the current timetable, there will be minimal spend in FY20. We anticipate the majority of the spend would be in FY22," Mr Vincent said.



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