



# AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

2016 FULL YEAR RESULTS PRESENTATION

THURSDAY 20 OCTOBER 2016



## 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 believes are relevant and appropriate for the understanding of the business. Refer to Appendix 1 for further information.

# GROUP PERFORMANCE & STRATEGIC PRIORITIES

STEPHEN ROCHE  
CEO & MANAGING DIRECTOR



# GROUP PERFORMANCE

REPORTED  
NPAT \$51.7m

↑ 19.8%

UNDERLYING\*  
NPAT \$51.4m

↑ 18.0%

REPORTED  
EBITDA \$113.6m

↑ 20.3%

REPORTED  
EBIT \$87.1m

↑ 17.7%

## STRATEGY DELIVERING SUSTAINED SUCCESS

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GROWTH CONTINUES FROM CORE  
ASSETS

OPERATIONAL EXECUTION  
MAINTAINED

CEO SUCCESSION IMPLEMENTED

# GROUP PERFORMANCE

**BASIC EPS**

**10.6¢**



**20.5%**

**FINAL  
DIVIDEND**

**3.5¢**



**40.0%**

**UNDERLYING\*  
ROCE 15.5%**



**204 bp**

**UNDERLYING\*  
ROE 9.6%**



**96 bp**

## STRATEGY DELIVERING SUSTAINED SUCCESS

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**FINANCIAL STRENGTH  
DEMONSTRATED IN CAPITAL  
RETURNS**

**STRONG POSITION FOR FUTURE  
DEVELOPMENT & LEVERAGE**



\*Refer to Appendix 1 and 2 for definitions and reconciliations

## GROUP FINANCIALS

PETER MENDO  
CHIEF FINANCIAL OFFICER



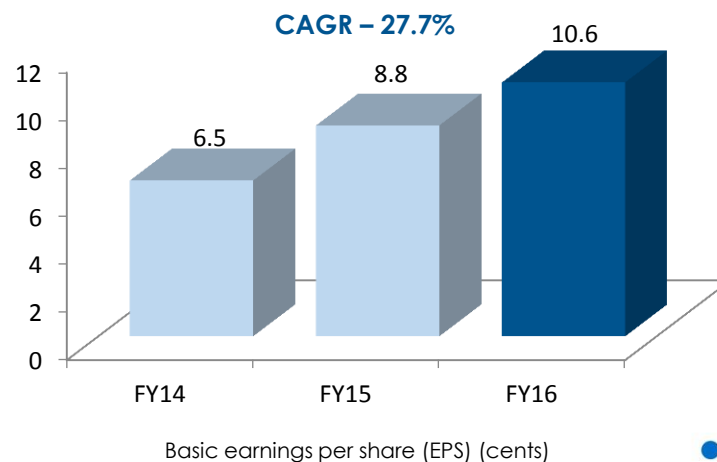
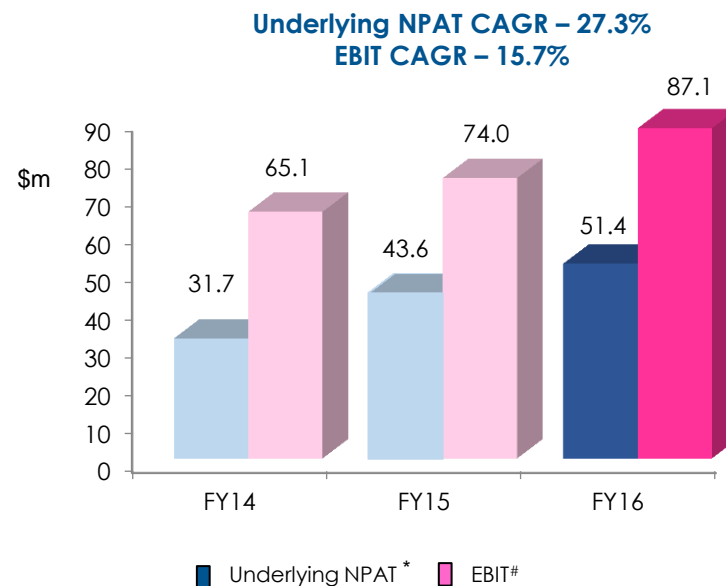
# FINANCIAL OVERVIEW

## STRONG PROFIT AND BALANCE SHEET POSITION

- Disciplined operational management
- Working capital brought back to expected levels
- Reported debt at record lows
- Sustainable shareholder returns with focus on capital metrics

## OPERATING COSTS CONTROLLED

- Overall costs have been held in line with last year & inflation
- SAP benefits continue to drive efficiencies, particularly in supply chain cost management



# WORKING CAPITAL

A\$m	FY16	1H16	FY15
Trade & other receivables	689	533	592
Inventories	414	383	364
Trade & other payables	799	528	666
Net Working Capital	304	388	290
Trade debtors days	39.5	34.6	39.9
Inventories days	41.0	40.9	40.2
Trade payables days	56.6	38.0	54.1
Cash Conversion Cycle	23.9	37.4	26.1

- **Following SAP implementation the seasonal period working capital has returned to expected levels**
- **Cash conversion cycle further improved from FY15**

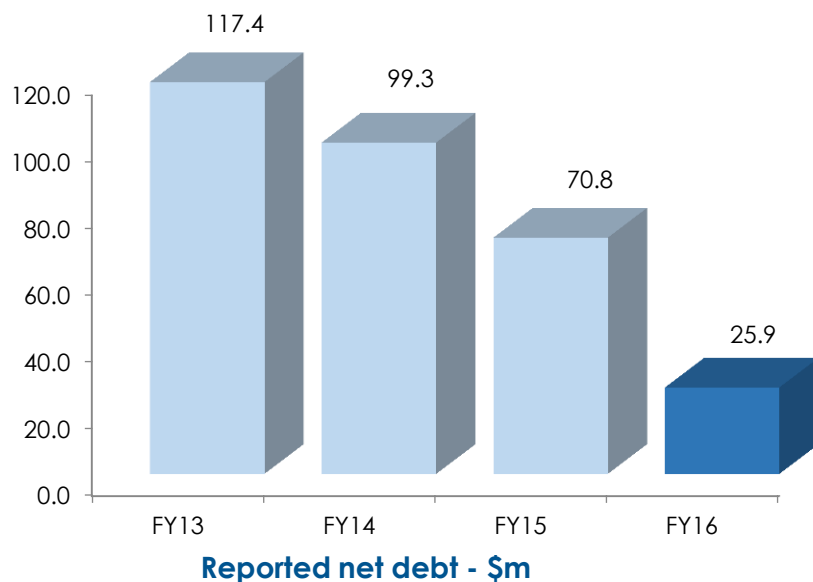


# CASHFLOW

A\$m	FY16	FY15
Cash generated from trading operations	96.6	101.8
Net capital expenditure	(13.0)	(29.9)
Free cash	83.6	71.9
Debt increase/(reduction)	(48.4)	(26.2)
Dividend	(24.4)	(19.5)
Net movement in cash	10.8	26.2

- **Cash generation from operations comparable to FY15**
- **2H16 focus on using cash to pay down debt**

# DEBT METRICS



## STRONG BALANCE SHEET

- Favourable refinancing of corporate debt facility in FY16
- Debt metrics and interest cover all improved from FY15

A\$m	FY16	1H16	FY15
Net Debt <sup>#</sup> /(Net Debt + Equity)	4.6%	21.0%	12.2%
Net Debt <sup>#</sup> /Underlying* EBIT	0.3x	1.8x	1.0x
Underlying* EBIT/Interest	5.5x	5.4x	5.2x

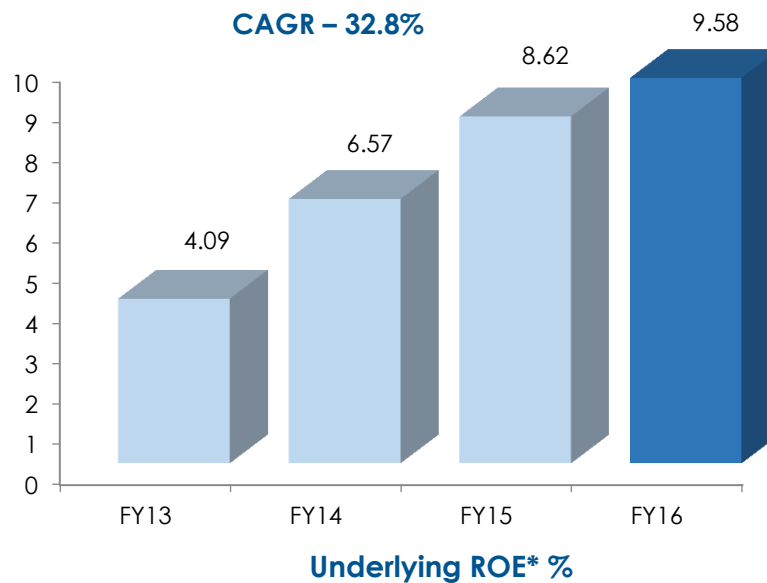
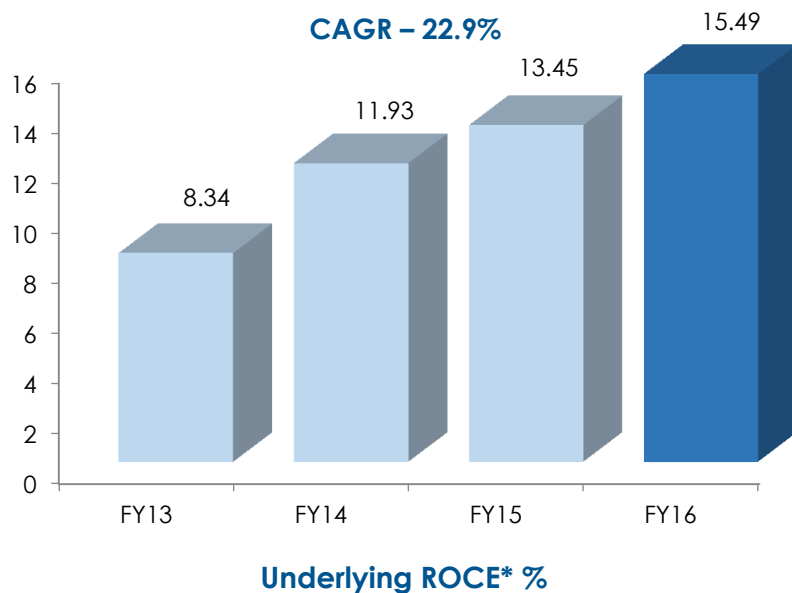
<sup>#</sup> Net debt includes annual insurance premium funding and finance lease liabilities

\*Refer Appendix 1 and 2 for definitions and reconciliations. EBIT for FY14 & FY15 as per Appendices 1 & 2 in FY15 ASX investor presentation

# CAPITAL METRICS

## RETURNS LEVERAGING SCALE

Returns reflect reaching critical scale and focus on maximising asset strength



\* Refer Appendix 1 for definitions

# CAPITAL MANAGEMENT SUMMARY

## Working Capital

- Normalised in-line with forecast as expected
- Managed high-cost Hep C introduction

## Capex

- Capex spend of \$20.7m for FY16
- Primarily stay-in-business capex of \$17m for FY17, additional capex to meet IRR hurdles

## Debt

- Debt will continue to be paid down in FY17 and, subject to capital management plans, expect to be cash positive within the next 12 months

## Dividends

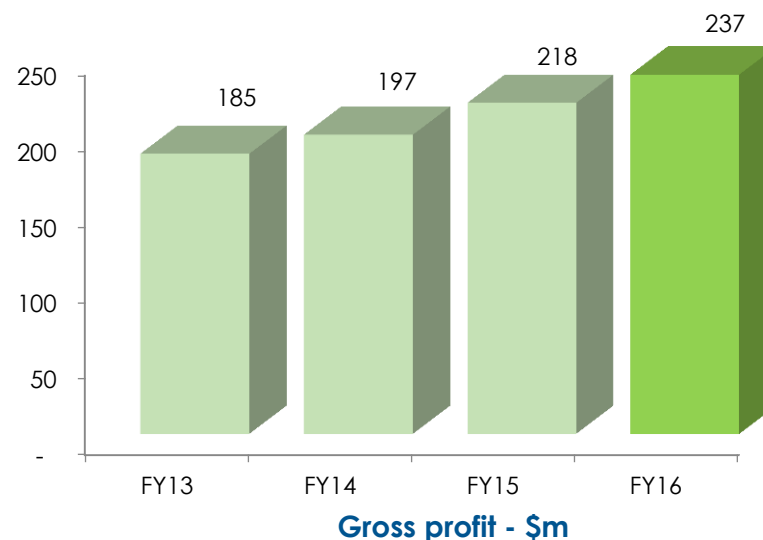
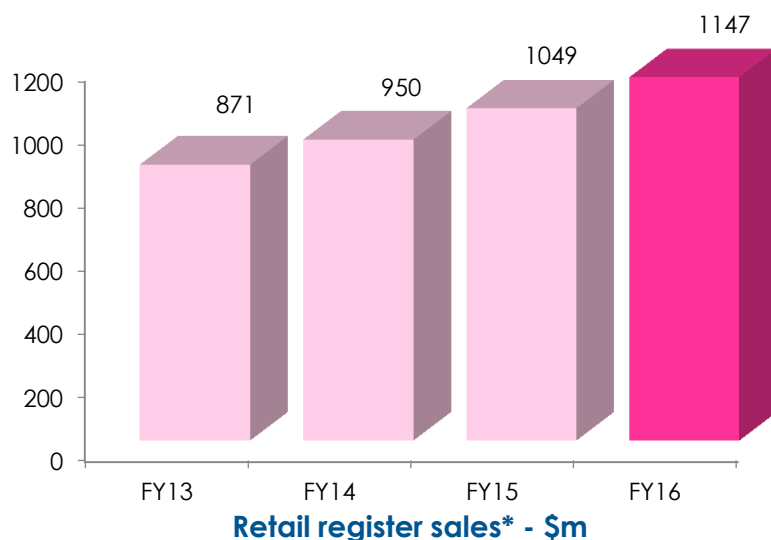
- Base payout ratio to move towards 60% in FY17

# OPERATIONAL SUMMARY

STEPHEN ROCHE

CEO & MANAGING DIRECTOR

# RETAIL GROWTH PROFILE



## KEY INDICATORS

- Total retail network sales up 11.7%<sup>#</sup>
- Retail network sales up 7.6%\*
- Comparable store retail sales +2.8%\*
- Dispensary LFL volume growth +4.4%<sup>1</sup>
- GP \$ margin growth +8.7%
- 442 stores at 31 August 2016



\*Retail network sales at register but excludes dispensary sales. Retail sales made by franchise stores do not form part of the financial results of the consolidated entity. Refer to the 2016 Appendix 4E lodged with the ASX for recorded segment revenue

<sup>#</sup> Retail network sales and all dispensary sales recorded at register

<sup>1</sup> Dispensary volumes adjusted for delisted products from PBS

# KEY DRIVERS

## #1 health & beauty position

- Further build position in beauty
- Continue taking market share in health
- Destination for new and exclusive

## Maximise brand reach

- Continuing to build brand recognition
- New brand campaign launched
- Broadening presence with women

## Build customer loyalty

- Deepen unique customer service proposition
- Build loyalty program and value
- Deliver innovative store experiences

## National network expansion

- Maintain at least 20 stores/year growth
- Only 5% of total footprint taken
- Grow franchise partner advocacy

# HIGH GROWTH CATEGORIES

## Key to core business:

- Unrivalled range and choice
- First to market
- Exclusive product launches
- Disruptive tactics

Core Categories  
 Colour cosmetics  
 Skincare  
 Medicinal health  
 Vitamins

Growth  
 12.9%  
 13.5%  
 14.2%  
 7.1%

# Nielsen data to 29 July 2016 – MAT market share pharmacy & grocery.





# BUILDING BRAND ASSETS



## SISTER CLUB

6.4 million total members  
2.9 million email addresses  
Represent 46% total sales and spend 46% more than non-members



## CATALOGUES & MEDIA

Over 7 million/month reaching 4 million women  
Dedicated national TV campaigns reaching 89% of women 18+



## SPONSORSHIPS

Taking a primary position in women's sports – netball, AFL  
Leveraging sponsorships across all assets



## SOCIAL MEDIA

Facebook 248k; Instagram 217k  
More than 1 million views/month and broadening engagement



## ONLINE

Monthly visits 1.9 million targeted at ready-to-buy audience  
Average monthly page impressions 12.4 million



## MAJOR CAMPAIGNS

Own major health and beauty media campaigns including; Festival of beauty, Beauty School, Health Tracker, Biggest Blood Pressure Check, Virgin Australia Melbourne Fashion Festival



## AMBASSADORS

Align iconic talent across health and beauty  
Maximises each major campaign

# NEXT GENERATION STORE LAUNCHED



## Next Generation store delivers for franchise partners

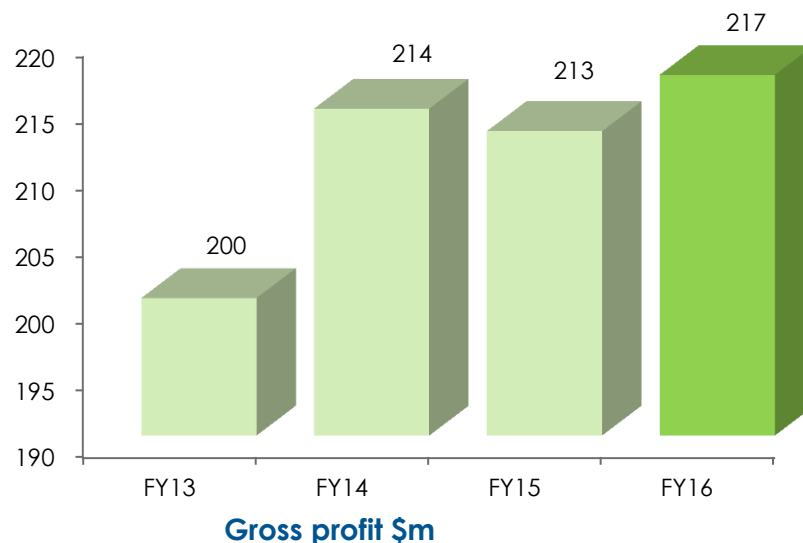
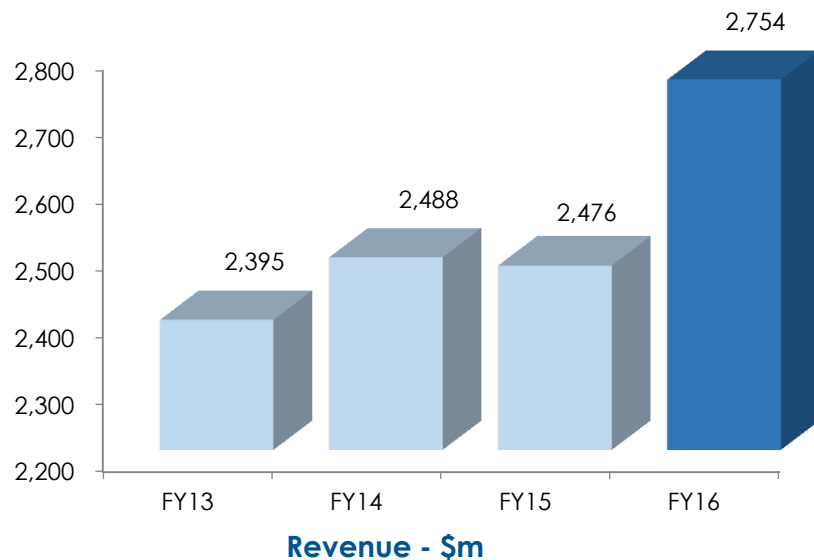
- Costs held constant with prior format
- More efficient use of stock
- Accentuates difference in the market

## Next Generation store delivers for our customers

- Dedicated “playground” areas
- Improved lighting, directional flow and signage
- Broader aisles and easier access



# PHARMACY DISTRIBUTION STEADY



## KEY INDICATORS

- Top line growth due to new Hep C medications – added \$289m in revenue
- Underlying Pharmacy Distribution revenue growth\* of 4.8%
- GP \$ margin growth of 1.9%
- Independent pharmacy offer remains strong

\*Refer Appendix 1 for definition

# STRONG INDEPENDENT OFFER

## INTEGRATED BUSINESS DRIVING VALUE

- Club Premium maintained as one of the most popular independent offerings in the market with more than 770 customers
- Supporting broadening of service-based community pharmacy model through active development of Soul Pattinson and Pharmacist Advice models

## KEY INDUSTRY ISSUES

- API submitted as part of the NPSA to the Review of Pharmacy Remuneration and Regulation
- Review to have final report in 2017



# NEW ZEALAND SUMMARY

## BUILDING A STRONGER PORTFOLIO

- Improvements continue year-on-year following restructure in prior years
- Capitalising on naturals and place of manufacture
- Contract manufacturing to Australian retailers maintained
- Sustaining local position as key supplier in domestic New Zealand market



# OUTLOOK

## MANAGEMENT FOCUS

- Strategic plan ongoing; substantial scope to further build Priceline Pharmacy network while Pharmacy Distribution will continue its long term sustainability to generate a return on assets

## FY17 OUTLOOK POSITIVE

- API's organic growth to continue
- Expect to have 462 stores in retail network at the end of FY17
- Further improvement in capital metrics and shareholder returns
- Balance sheet strength and debt position to provide flexibility

• Outlook is subject to:

- no material change in consumer or customer demand
- a stable economic climate
- no unforeseen adjustments to the regulatory environment or reforms to the Pharmaceutical Benefits Scheme



AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

THANK YOU



# 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 Full Year presentation for the period ending 31 August 2016.

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
- 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
- Underlying EBIT

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 Full 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) – underlying EBIT / Equity plus Net Debt
- Return on equity (ROE) – underlying 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 page 25 for prior comparable period.

## Appendix 2 – FY16 Income Statement

\$M AUD	FY16	FY15	Change
Revenue	3,840.0	3,457.4	11.1%
Gross Profit	477.9	453.8	5.3%
Less Operating Costs net of Other Income	390.8	379.8	2.9%
EBIT*	87.1	74.0	17.7%
Less Net Financing Costs	15.8	14.1	12.1%
Less Associates	2.4	0.4	-
Less Tax Expense	17.2	16.3	5.5%
NPAT pre adjustment	51.7	43.1*	19.8%
Add back CH2	2.4	0.4	-
Tax adjustment to prior year debtor provision	(2.7)	-	-
Underlying NPAT	51.4	43.6*	18.0%

\*Rounding discrepancy adjusted



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