



MACQUARIE AUSTRALIA CONFERENCE

THURSDAY 2 MAY 2019

Important Notice

The information provided is general in nature and is in summary form only. It is not complete and should be read in conjunction with the Company's interim financial report and market disclosures. This material is not intended to be relied upon as advice to investors or potential investors.

Non-IFRS information

- Other than as indicated, the financial information contained in this document is directly extracted or calculated from the interim financial report. Throughout this document some non-IFRS financial information is stated, excluding certain specified income and expenses. Results excluding such items are considered by the Directors to provide a meaningful basis for comparison from period to period. We believe these non-statutory measures provide useful information to understand the financial performance of the Company, but should not be considered as an indication of, or substitution for reported information.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) –a non-IFRS term –is considered by Directors to be a meaningful measure of the operating earnings and performance of the Group and that this information may be useful for investors.
- The non-IFRS financial information has not been audited or reviewed by the Group's auditors.

Forward looking statements

- This presentation contains forward-looking statements that involve subjective judgement and analysis and are subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to the Company. These forward looking statements use words such as 'potential', 'expect', 'anticipate', 'intend', 'plan' and 'may', and other words of similar meaning. No representation, warranty or assurance (express or implied) is given or made in relation to any forward looking statement by any person (including the Company). Actual future events may vary materially from the forward looking statements and the assumptions on which the forward looking statements are based. Given these uncertainties, readers are cautioned not to place undue reliance on such forward looking statements. Subject to the Company's continuing disclosure obligations at law and under the listing rules of the Australian Securities Exchange, the Company disclaims any obligation to update or revise any forward looking statements. The factors that may affect the Company's future performance include, among others: changes in economic conditions, changes in the legal and regulatory regimes in which the Company operates, litigation or government investigations, decisions by regulatory authorities, changes in behaviour of major customers, suppliers and competitors, interruptions to manufacturing or distribution, and the Company's ability to protect its intellectual property.

Refer to Appendix 1 for further information.

Company overview

- ▶ Founded in **1910** as cooperative for pharmaceutical wholesaling
- ▶ Publicly listed on the ASX in **1997** and in **ASX200**
- ▶ **API** IS a leader in Australian pharmaceutical wholesaling
- ▶ **Priceline Pharmacy** is a leader in health and beauty retailing in Australia
- ▶ **Consumer Brands** is a niche manufacturer and supplier of health and beauty products in Australia, New Zealand, Asia and the United Kingdom
- ▶ **Clear Skincare** is a leader in non-invasive beauty services in Australia and New Zealand



Health and beauty retail market

- ▶ Compete on non-prescription products with supermarkets, departments stores, pharmacies and speciality retailers
- ▶ Total estimated health and beauty market value of more than **\$9.8 BILLION***
- ▶ Health and beauty growth rate of approximately **2.5%*** per annum
- ▶ **AGEING POPULATION** continuing to increase demand for health and beauty products



* Sources: IRI MAT data dated 03/03/19; Beauty Update Market Update 1H2018

Australian pharmacy market

RETAIL PHARMACY MARKET

- ▶ **5,700 PHARMACIES** nationally
- ▶ **2,200+ PHARMACIES** are independent
- ▶ **1,000+ PHARMACIES** potentially fit Priceline Pharmacy model

GOVERNMENT A KEY STAKEHOLDER

- ▶ Operates a **NATIONAL MEDICINES POLICY**
- ▶ Ownership and location regulations are part of an agreement with the Pharmacy Guild of Australia and Federal Government
- ▶ **88%** of medicines on PBS are **REGULATED**
- ▶ PBS-medicine distribution is subsidised for wholesalers to **ENSURE EQUITY OF ACCESS** by delivery of any PBS medicine to anywhere in Australia in 24 hours



Portfolio of complementary health and beauty assets to deliver growth

LEVERAGE EXISTING INFRASTRUCTURE AND MARKET EXPERTISE

Pharmacy Distribution to deliver stable ROCE and cash generation

Evolve **Priceline Pharmacy** offer to address customer changes

Expand **Clear Skincare** network and grow profitability

Build **Consumer Brands** portfolio and earnings contribution

FINANCIAL STRENGTH AND STABILITY

HY19 Results snapshot

HIGHLIGHTS FOR HY19

- Delivered HY19 EBIT guidance at over 5%
- Solid balance sheet providing flexibility
- Growth assets and new markets performing well
- Priceline Retail network LFL sales +0.3%
- Interim dividend payment and increase on prior period

Revenue
\$2.0bn



EBIT
\$44.4m



Underlying¹ NPAT
\$26.8m



Underlying¹ EPS
5.4¢



Dividend
3.75¢/share

¹ Refer to Appendix 1 for all definitions

Debt and working capital

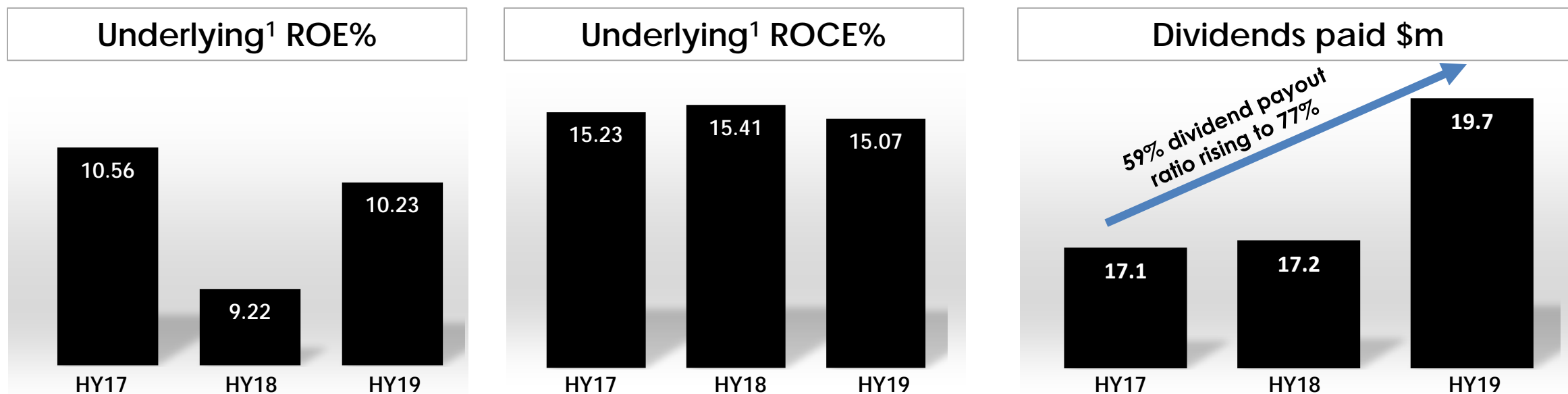
WORKING CAPITAL REFLECTS SALES GROWTH TARGETING

- Reported net debt moved from \$25.1m in February 2018 to \$262.0m in February 2019
- Net debt reflects acquisition of Clear Skincare, strategic investment in Inventory, and investment in Sigma Healthcare
- Strategic investment in Inventory during the half drove the improved Priceline result
- Trade Payable days down reflecting increased inventory ordering and timing of payments
- Trade Debtor days up on the prior half reflecting the increased retail sales late in the half, collected post half year end
- Working Capital days are normalising

Working Capital ¹	HY18	HY19
Trade Debtor Days	36.0	37.2
Inventory Days	37.7	38.8
Trade Payable Days	49.6	46.7
Cash Conversion Days	24.0	29.3

¹ Refer to Appendix 1 for all definitions

Capital management



RETURNS TO SHAREHOLDERS CONSISTENTLY STRONG

- Underlying ROE reflects positive results from Priceline network and Consumer Brands, and first half inclusion of Clear Skincare
- Underlying ROCE reflects the full debt from Clear Skincare yet less than 12 months trading
- Dividend and payout ratio increased

¹ Refer to Appendix 1 for all definitions

Capital management

CAPITAL MANAGEMENT OUTLOOK

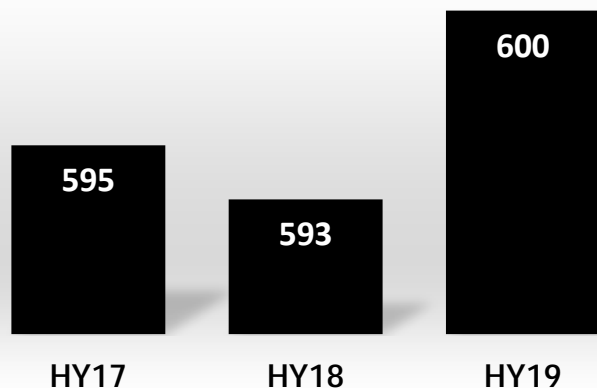
- Strategy requires continuous review and assessment of capital allocation
- Clear Skincare acquisition payments will be made in September 2020 and 2021
- Continue to assess synergistic acquisitions with Balance Sheet capacity
- Sigma - ongoing review of our position
- Capex to remain at current levels



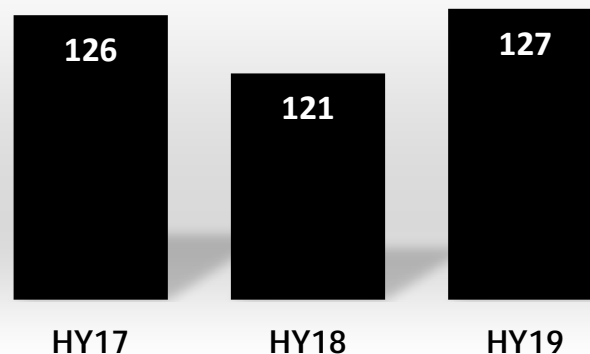
Priceline Pharmacy

Priceline Pharmacy results

Retail Register Sales¹ \$m



Retail GP \$m



TRACTION ON STRATEGY

- Overall market share held with growth in skincare and vitamin categories
- Like for like sales up 0.3%, growth in basket size, franchisee sentiment strong
- Focus on new and exclusive brands, instore experience, including click and collect trial
- Gross Profit increase reflects improved margin management
- Increase in store numbers to 479
- Sister Club program continues to expand, with more exclusive rewards on offer to build loyalty

¹ Refer to Appendix 1 for all definitions



Our exclusive club for independent pharmacies

-  Better buying
-  Opt-in marketing tools
-  Pharmacy Best Buys catalogue program
-  Business reporting tools
-  Retail and professional service solutions



Our health and wellbeing pharmacy model

-  Heritage brand
-  Community engagement
-  Convenience offer
-  Advice driven categories
-  Focus on service



Our professional services pharmacy model

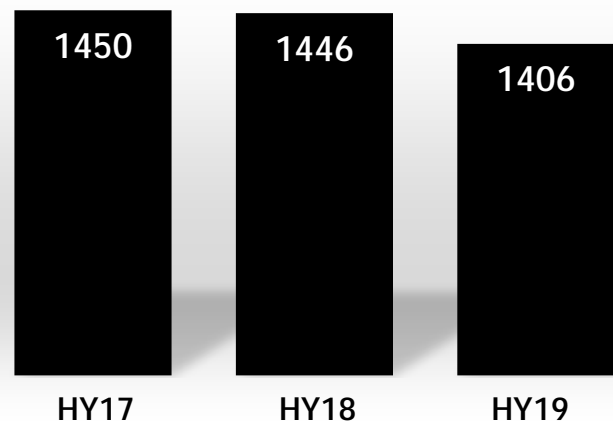
-  Trusted advice
-  Focus on health solutions
-  Ability to maximise professional services
-  Curated product range
-  Professional clinic space



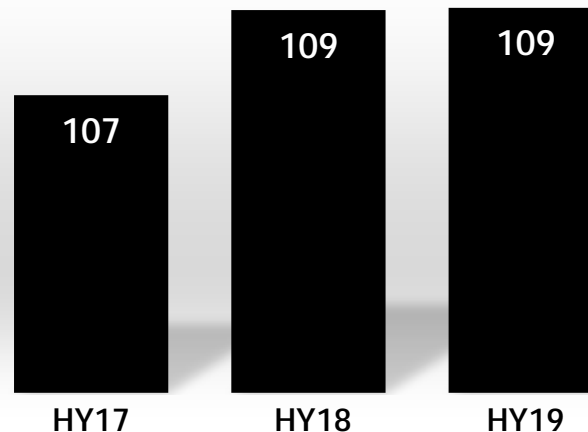
Pharmacy Distribution

Pharmacy Distribution results

Revenue \$m



GP \$m



STRONG UNDERLYING GROWTH

- Adjusted Pharmacy Revenue¹ up 8.8%
- Competitive market and we continue to hold share
- Adjusted Pharmacy Revenue sales growth has largely offset margin pressure
- Over 1,400 members in retail pharmacy programs
- CSO contract renewed to June 2020

¹ Refer to Appendix 1 for all definitions

Soul Pattinson Chemist

SHOULD I GET A FLU SHOT?

Get your flu shot with us today!

*ONLY AT PARTICIPATING STORES. SEE IN STORE FOR DETAILS.

CLUB PREMIUM

Pharmacy Health™
Your Pharmacy. Your Health.

Healthy SAVINGS

Pharmacist Advice

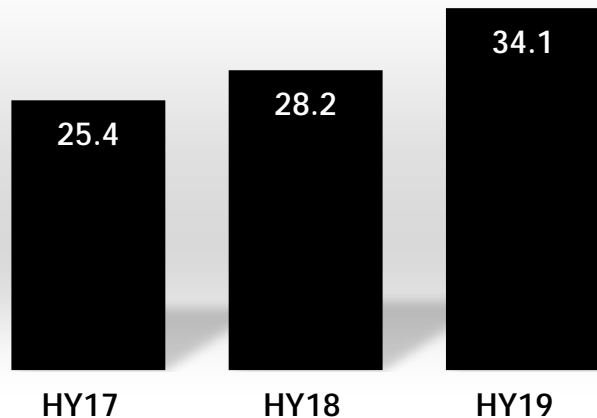
BE WINTER READY
4th April - 12th May 2019



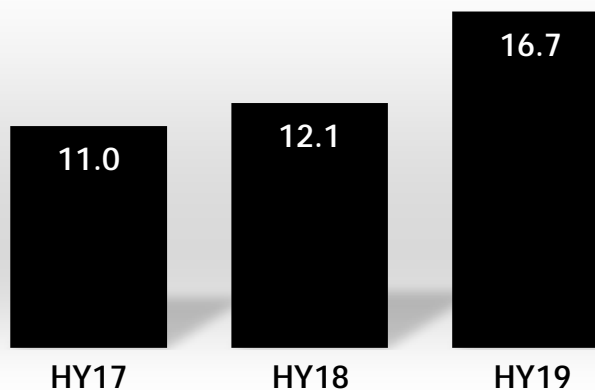
Consumer Brands

Consumer Brands results

Revenue \$m



GP \$m



MARKET SHARE AND MARGIN GROWTH CONTINUE

- Consumer Brands EBIT \$2.3m an increase of \$1.8m from the pcp
- Healthcare growth reflecting new contracts in place and broader portfolio offering
- Personal Care development continues with the first shipment to the UK late in the half
- Further growth expected on the back of new contracts recently entered and the launch of new products





Clear Skincare

Clear Skincare results

FIRST FULL HALF REFLECTS GROWTH POST ACQUISITION

- Revenue \$21.8m in line with expectations and up 21% on pcp prior to ownership
- Gross Profit \$18.3m for the half
- New management team in place providing structure for growth
- Leveraging API infrastructure across Marketing, IT and Property Services
- Products now offered across the Priceline network
- Growth opportunities both in new clinics and in growing the range of offerings

Clear Skincare

ANTI-AGEING, ACNE & LASER CLINICS



FY19 Outlook

- We remain confident in our strategy
- Diversified earnings base leveraging existing competencies and assets
- Ongoing review of our shareholding in Sigma
- Balance sheet that supports our growth strategy
- Operational initiatives are gaining traction to deliver growth

Appendix 1a ASIC

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 28 February 2019.

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:

- Comparable Store Growth
- Underlying Return on capital employed (ROCE)
- Underlying Return on Equity (ROE)
- Pharmacy Growth
- Underlying Pharmacy Revenue Growth
- Retail register sales
- Underlying NPAT
- Underlying Earnings per share

The directors consider that these performance measures are appropriate for the purpose of presenting 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 1b definitions

- EBITDA - Result from operating activities before Depreciation and Amortisation
- EBIT – Result from operating activities
- Underlying NPAT – Net Profit after Tax calculated with the adjustments as outlined in Appendix 1c
- Comparable Store Growth - Sales performance compared to last period for stores trading in the retail network greater than one year
- Net Debt or Net Cash – Borrowings less cash on hand
- Underlying Return on Capital Employed (ROCE) – Underlying EBIT/Average Total Capital Employed with the Sigma transaction removed
- Underlying Return on equity (ROE) – Underlying NPAT/Average Equity
- Retail network sales – all register sales in franchise and company stores in the Priceline/Priceline Pharmacy brand, including dispensary sales
- Retail register sales – Sales recorded at the register of all network stores which excludes dispensary sales. Register sales made by franchisees do not form part of the results of the consolidated entity
- Adjusted Pharmacy Revenue – revenue calculated on sales before any PBS price changes that occur as directed by the Federal Department of Health, and excluding Hepatitis C medicine sales
- Working Capital days are calculated excluding the impact of API Rewards on Trade Debtor and Trade Creditor balances, and the impact of recent Accounting Standard changes in respect of Financial Instruments and Revenue
- The Segment Note reconciles to individual segment results after adjusting for recent Accounting Standard changes

Appendix 1c 2018 income statement

\$M AUD	HY19	HY18	Change
Revenue	1,977.1	2,009.3	-1.6%
Gross Profit	265.9	242.8	9.5%
Less Operating Costs net of other income	221.5	200.8	10.3%
EBIT	44.4	42.0	5.8%
Less Financing Costs	8.1	6.0	35.0%
Less Tax Expense	11.3	11.0	2.7%
NPAT pre adjustment	25.0	24.9	0.0%
Add back business acquisition & restructure costs	-	1.9	
Add back Sigma share purchase associated costs	1.8	-	
Underlying NPAT	26.8	26.8	0.0%